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The Case for Increased Railroad Rates

Abstracts of
Testimony and Arguments
Presented to the
Interstate Commerce Commission

By Railroads in
Official Classification Territory in the
5 per cent. Advance Rate Case
of 1913-1914

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RAILROADS in the Eastern Section of the United States—what is known as Official Classification Territory—applied on May 14, 1913, to the Interstate Commerce Commission for an increase of five per cent. in freight rates.

The presentation of the railroad case was in charge of a Committee of Railroad Presidents, as follows:

DANIEL WILLARD (Chairman),
President, Baltimore and Ohio Railroad Company

SAMUEL REA,
President, Pennsylvania Railroad Company

(W. C. BROWN, succeeded by)
A. H. SMITH,
President, New York Central Lines

In a statement to the Commission on May 1, 1914, closing the argument for the railroads, Mr. Willard said:

"It must be realized that the problem confronting these carriers goes far beyond the scope of this particular proceeding. Yet the facts which we have attempted to bring before the Commission in this proceeding are highly illuminating with reference to this general problem.

"We have prepared short abstracts of the more important portions of the evidence, and distributed them throughout our territory.

"We have restricted what we distributed to statements of facts actually presented to this Commission. Everything has been done frankly and candidly, not to mislead but to inform, and in accord with what we believe were considerations of sound public policy."

The following pages comprise the material sent out, and embody the main facts and principles upon which the carriers based their contentions.

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Arguments

The Case for Increased Railroad Rates

April 27, 1914.

The thirty-five railroad systems which are appealing to the Interstate Commerce Commission for an increase in freight rates to-day filed with the Interstate Commerce Commission their briefs summarizing the position of the railroad companies.

The brief devotes considerable attention to the purely economic features of the case. It is set forth that the purchasing power of money has so decreased in the past eighteen years "that the purchasing power of the moneys now paid for freight on the railroads of the country, generally, were in 1912 approximately 30 per cent. less in the market for commodities than it was in 1896."

"Imagine the protests," says the brief, "and the unsettlement of the value of railroad securities in the market if it had been proposed by law in 1896 to require the railways to reduce their rates and the compensation received by them for their services from 35 to 40 per cent., or if an order had been made by this Commission to any such effect. Yet witnesses have shown that the *actual* rates and actual compensation have, by reason of the diminished purchasing power of the dollar, been lowered far in excess of the *apparent* lowering as measured in gold dollars."

"The railroads are still required to sell their services at rates to pay even less than those established years ago, after competition had forced them to a low level, and to take their pay in a depreciated currency, while they must buy their labor, buy their

materials, borrow their capital and pay their taxes on the basis of present-day commodity prices."

After presenting in detail the situation as relating to different roads or groups of roads, the conclusions of the carriers are thus set forth:

"We have shown a steady decline in the return on the money which has gone into the transportation plant, *i. e.*, the road and equipment.

"We have shown (a), that in the period 1903 to 1913, the net operating income per cent. (of the thirty-five roads embraced in this proceeding) on the money which went into the property investment account, was an amount equal to 4.31 per cent. in 1913 over 1910. The rate of return on property investment was 5.85 per cent. in 1903, 6.28 per cent in 1910 and 5.36 per cent. in 1913.

"Comparing 1913 with 1910, the combined property investment increased $659,862,588, while operating revenue increased $186,775,867. Including taxes, which increased over $11,579,165, expenses increased more than $201,301,462, so that net operating income decreased $16,311,000, or nearly 5 per cent.

"In other words, after increasing investment 11.74 per cent and gross revenues 15.09 per cent., there was no resultant increase in net operating income; on the contrary, there was realized $16,311,321 less net than was earned before the $659,862,588 was added to the property investment.

"(b) That during the 1903-1913 period, the Baltimore and Ohio System increased

their property investment account by $116,387,481, with a decrease in net operating income of $829,021, and that between 1910 and 1913 their property investment account increased $56,634,002, with a decrease of net operating income of $660,791, notwithstanding the fact that in 1913 their operating revenues exceeded 1903 by $35,837,724, and exceeded 1910 by $13,341,491. The rate of return on property investment was 6.01 per cent. in 1903, 5.21 per cent. in 1910, and 4.52 per cent. in 1913.

"(c) That in the case of the Pennsylvania System, the property investment account increased $530,750,073 between 1903 and 1913, with an increase of only $11,860,533 in net operating income, or an amount equal to 2.23 per cent. on the increase in property investment, and that between 1910 and 1913 that same System increased its property investment by $207,186,919, with a decrease of $11,485,511 in net operating income, notwithstanding an increase in 1913 in operating revenues of $148,861,269 over 1903, and of $47,057,640 over 1910.

"The rate of return on property investment was 7.49 per cent. in 1903, 7.41 per cent. in 1910, and 5.48 per cent in 1913.

"(d) That between 1903 and 1913, the New York Central Lines increased their property investment account $460,198,262, and their net operating income $28,714,151, or an amount equal to 6.24 per cent. on the increased investment, and that between 1910 and 1913 they increased their property investment account $159,606,173, and their net operating income $3,765,591,

or an amount equal to 2.36 per cent. Operating revenues increased 1903-1913, $124,520,099, and 1910-1913, $48,981,231.

"The rate of return on property investment was 5.07 per cent. in 1903, 5.89 per cent. in 1910, and 5.47 per cent. in 1913.

"(e) That between 1903 and 1913 the property investment account of the Erie Railroad System increased $88,459,748, with a decrease of $799,205 in net operating income or no return on the increased investment, and notwithstanding an increase of $19,133,219 in total operating revenues during that same period; that between 1910 and 1913 there was an increase of $24,617,024 in property investment, with an increase of $201,230 in net operating income, or an amount equal to 0.82 per cent. on the increased investment, while in that same period operating revenues increased $8,247,449.

"The rate of return on property investment was 4.60 per cent in 1903, 3.68 per cent in 1910, and 3.53 per cent. in 1913.

"(f) That there has been a steady and constant increase in transportation, maintenance of way and maintenance of equipment expenses, an increase not temporary, but of a continuing character due to the nature of the underlying causes, such as the increase in wages, legislative requirements, and the necessity of maintaining a higher standard of track and equipment.

"(g) That the operating revenues of the carriers are inadequate to keep pace with this increase in expenses, and, accordingly, that the money expended in procuring necessary facilities has earned

an utterly inadequate return since 1903, and no return at all since 1910.

"(h) The effect of these things is that at a time when the business of these carriers is larger in volume than ever before in their history, at a time when their capital obligations are the largest ever recorded and their plant and equipment more complete and more efficient than ever before, they find themselves face to face with a declining net income. They are, moreover, now without the potentiality of further operating economies, such as they have been able thus far to put into effect, and which have, until but recently, held in check the forces beyond their control, and these are now operating in full strength to diminish profits. The situation disclosed in the figures for 1913 which are before the Commission is serious, but a truer reflection of the actual facts is found in the figures so far available for 1914, for it is only now that the full effect of the factors operating to diminish the carriers' profits is beginning to appear.

"In brief it appears (as Mr. Willard said in his opening statement) that 'the new capital invested in railroads in Official Classification Territory, during the last three years, has earned little or no return; in fact, these properties generally are actually earning less net, after paying operating expenses, and taxes, than they were earning at the beginning of the period, and before the $659,862,000 had been spent.

" 'The result, as might be expected, of this constant tendency toward diminishing

net returns, has been to seriously check, if not altogether stop, the normal development of railroad facilities, in the territory affected. During the ten-year period these railroads found it necessary to increase their property investment approximately $2,000,000,000 an average of about $200,000,000 per annum, and it is certain that an equal, if not greater amount per annum will be necessary to meet the requirements of the future.

"'It is a mistake to think that the problem is merely a question of dividends to railroad stockholders, although that feature is of course involved. The problem in a broad and true sense affects all interests, and the outcome of this particular case—whichever way it is decided—will mark an epoch, because it will, in effect, very largely determine whether we shall as in the past continue to look to private capital and private enterprise for our transportation requirements, or be compelled finally to accept the only alternative possible. It is recognized, of course, that railroad expansion and improvements must go on, and any tendency or condition that threatens to seriously check, if not completely stop such expansion in a large and important part of the United States, becomes, because of that fact, a matter of vital importance.'

"The interest of the public in the situation has nowhere been more clearly stated than in the 1910 case, where the Commission said:

"'Our railroads must be maintained in a high state of efficiency. This the public interests demands. Commerce and industry cannot afford to wait on transportation

facilities. Our rates should be such as to render possible a high-class, not an extravagant, service.

" 'It is generally conceded that within the next few years, if our means for transportation by rail are to keep pace with the calls upon them, very large sums must be expended in the way of new construction and new equipment. While some small portion of this may come from current earnings, the great bulk must be new capital and this capital must be obtained from the investing public.

" 'If, therefore, we are to rely in the future, as we have in the past, upon private enterprise and private capital for our railway transportation, the return must be such as will induce the investment. It is therefore not only a matter of justice, but in the truest public interest, that an adequate return should be allowed upon railway capital.' ".

In reference to the difficulties encountered by the railroads in obtaining new capital, the brief says in part:

"Railroad companies have experienced constantly increasing difficulty in recent years in securing necessary new capital.

"There has been a general increase in the interest return demanded of investment securities and at the same time the railroads have been forced to meet a great, world-wide and strenuous competition for the use of capital.

"One of the principal causes for the impaired ability of the railroads to obtain new capital is that their property investment is increasing in a greater ratio than their net operating revenue and that their inability to increase their rates to meet in-

creased expenses has made them no longer responsive to the law of increasing returns.

"Unless the railroads are permitted to increase their revenues by a reasonable increase in their rates for transportation services so as to help meet the large and permanent increases in the cost of capital, wages, taxes and other expenses, then it will be only a question of time when there will result not merely the reduction or suspension of dividends, but also in some cases at least a default in the payment of interest and other obligations.

"Unless the railroads are able to receive rates for their transportation services that will produce net revenues sufficient to meet reasonable dividend requirements and leave a reasonable surplus as a margin of safety to help defray the 'cost of progress,' secure the future stability of rates, establish confidence in the continuance of dividends and otherwise maintain credit, there is but little ground to believe that private investors will afford the necessary new capital.

"Diminished surplus earnings prevent the creation of adequate reserve funds unless dividends be curtailed or suspended. Curtailments of dividends would aggravate the situation, while suspension of dividends would make it increasingly difficult to obtain any capital even by the sale of bonds, and where obtainable by bond sales it would only be at much higher rates of interest. Total suspension of dividends by all the railroads, though it would produce a great panic, would not produce the amount of new capital required."

The Case for Increased Railroad Rates

Why the Carriers Seek a General Rate Advance

APRIL 28, 1914.

The railroads seeking a general increase of 5 per cent. in freight rates have just filed with the Interstate Commerce Commission a memorandum as to why the railroads seek a general rate advance. The memorandum says:

"To meet the need for increased net revenues, three methods were looked upon as possibilities:

"(1) A large reduction in the cost of operation, other conditions remaining as at present, would produce larger net earnings;

"(2) A large increase in gross earnings if the additional business could be handled with the present facilities and at present operating ratios would also result in a larger net;

"(3) An increase in freight charges, other conditions remaining as at present, would bring about the same result. The process of reasoning by which two of these possibilities were eliminated may be best stated in the language of Mr. Willard:

> "I do not believe it will be possible to obtain the necessary relief either by reducing wages already in effect, or by making any very considerable reduction in the number of men employed; nor do I believe it will be possible to effect economies in operation of sufficient magnitude to have any saving effect upon the situation. Undoubtedly further economies will be brought about, but it is altogether likely that in the future, as in the past, they will be more than offset by increased taxes, by the effect of further legislation, which is almost cer-

tain to come about, and by other unavoidable increases in expenses.

"Under certain conditions it might properly be expected that larger gross earnings would give increased net, but it so happens that the railroads involved in this proceeding are located in that part of the United States where commercial and industrial development has been most intense, and it will be shown that in order to increase the gross earnings of these particular companies to any great extent at the existing rates, it would be necessary for them to handle a volume of business much beyond their present carrying capacity.

"It would, therefore, be necessary to obtain and spend a large amount of new capital for increased facilities before gross earnings could be greatly augmented, and as has already been shown, new capital invested in such facilities during the last three years has generally failed to earn any return whatever upon the investment.

"For this reason I do not think we can safely look for relief in the one direction of increased gross earnings, and this brings us to the third remaining method suggested—that is, increased charges, or increased rates and fares.

"Inasmuch as the passenger fares charged by these several companies are generally the result of legislative enactments, and the mail pay and express rates are also beyond the control of the railroads, it will be seen at once that no immediate relief, and perhaps no very considerable relief at any time, can be obtained in these directions, and we are consequently forced to consider an advance in freight rates as the one available source of increased earnings."

"In the opinion in Docket No. 3400 at p. 16 the Commission noted the fact that in Official Classification Territory especially the existing fabric of freight rates is the product of most active competition, recognizing the principle that 'there is a

strong presumption that rates so arrived at are reasonable rates.'

"Having before them, therefore, a fabric of freight rates presumed to be reasonable and non-discriminatory, and having reached the conclusion that the only practicable method of augmenting net revenues was by an increase in the rates therein contained, it appeared to the carriers to be obvious that the fair method of effecting the increase, having regard to the interests of the shippers, was to lift the entire fabric into a higher plane by means of what may be called a horizontal increase, thereby preserving in support of the increased rates the presumption in favor of their non-discriminatory character, and leaving open as the sole question to be determined before permitting the rates to go into effect whether the need for increased net revenues justifies the extent to which the entire fabric has been raised.

* * * *

"In anticipation of a possible conclusion by the Commission to the effect that present rates do not afford adequate revenue to the carriers, and having regard to the second question referred to by the Commission in its inquiry under Docket No. 5860, it has been suggested that the revenue of the carriers under present tariffs and practices suffers important depletion from the performance by the carriers of certain services as incident to the transportation of freight without any charge in addition to the transportation rate, when in fact such services should

more properly be held to be in addition to the transportation service covered by the published rate and should be made the subject of additional charges.

"In its decision in the so-called Industrial Railways Case, Docket No. 4181, at p. 217, the Commission said that

> "the very carriers that are augmenting their expense accounts and dissipating their revenues in this manner (by paying allowances to industrial railways) to the extent of many millions of dollars a year, and for the benefit of a comparatively few shippers, are now complaining that their present earnings are insufficient and on that ground have asked our permission to make a substantial increase in their general rate schedules.
>
> "In this general connection it may safely be assumed that no substantial part of the well-informed and reflecting public would deny to the owners of the railroads of the country a reasonable return on their investments; nevertheless, before they may fairly ask the general public to share further in carrying their burdens it is manifest that the railroads must themselves properly conserve their sources of revenue by making every service rendered by them contribute reasonably to their earnings."

"Following the decision just referred to, notwithstanding the fact that no order was made, the carriers in this territory attempted in good faith to comply with the views of the Commission in respect to industrial allowances. Tariffs were filed with this Commission and with the various State Commissions cancelling allowances to one hundred and nine so-called industrial railways, only thirty of which were specifically dealt with by the Commission in its opinion.

"Many persons affected by these cancellations felt themselves aggrieved, and sought, through the medium of the various State Commissions, to prevent the tariffs from going into effect, to the full extent contemplated by the decision of this Commission.

"Proceedings were instituted before the Public Service Commissions of New York, Illinois, Indiana and Ohio, and protests were filed with this Commission, with the result that the tariffs providing for cancellations of allowances to twenty of the seventy-nine roads not mentioned by the Commission in Docket No. 4181 were by this Commission suspended.

"It thus appears that the reform recommended in docket No. 4181, estimated to be worth $15,000,000 a year, has failed of its immediate purpose, and it is apparent that it can only be made effective in aid of inadequate revenue by overcoming many obstacles which those controlling the industrial railways will be able to interpose.

* * * *

"We understand that these subjects [spotting, etc.] are not on the docket for discussion in this brief, and that further investigation thereof will be made. With such further investigation the carriers sympathize, and if at the end of such investigation some way is found by which additional revenues may be secured for the so-called 'volunteered services' such additional revenue will doubtless be welcome.

"The matters are referred to here merely to call attention to what appears to be the obvious fact that if the Com-

mission shall be of opinion that the carriers are in immediate need of additional net revenue, it is not at all likely that such additional net revenue in any adequate amount can be immediately secured by the adoption of any of the reforms which have been suggested."

The Case for Increased Railroad Rates

The Need of the Carriers for Additional Revenue

WASHINGTON, April 27.

In opening the oral argument in the application of the eastern railroads for an increase in freight rates, Mr. Geo. Stuart Patterson, General Solicitor of the Pennsylvania Railroad, addressed the Interstate Commerce Commission to-day on "The Need of the Carriers for Additional Revenue."

Mr. Patterson said in substance:

"During the past ten years, for the thirty-five railroad systems in this proceeding—

"Property investment has increased 46.04 per cent.;

"Capital obligations have increased 49.22 per cent.;

"Operating revenues have increased 63.54 per cent.;

"Operating expenses have increased 74.80 per cent., and

"Taxes have increased 111.43 per cent.

"During this same period, 1903-1913, there has been—

"(a) A decline in the ratio of net operating income to property investment;

"(b) A decline in the ratio of net operating income (plus interest on funded debt) to total capital obligations;

"(c) A decline in the ratio of surplus to total capital obligations.

"All of this shows a decided weakening in the position of the carriers as regards their return on investment, despite the growth in the size of the plant, volume

and density of the business, and the facilities and improved methods of handling that business.

"Thus during the last ten years the carriers find themselves, after a period of great growth and expenditure of new capital, worse off than they were before this growth and expenditure, though they should be materially better off.

"The importance of this showing for the period 1903 to 1913 is greatly increased by the fact that the tendencies which operated during that period to decrease the return on the investment are operating with even greater force in the last three years.

"The figures reflect an acceleration in the rate of decline in recent years. They show the lowest rate of return, and the lowest surplus in the last three years, and the year 1913 shows the lowest figure for any of these years. If it be remembered that these three years are the biggest three-year period in the carriers' history, and that 1913 was in itself the largest of the three, then the full significance of the showing becomes apparent.

"The view has been suggested that the net revenues for 1913 were larger than for any of the last five years, except 1910, and, therefore, negative any inference that the carriers' revenues are inadequate or that they have reached a crisis in their affairs.

"In 1913 not only were the facilities the largest in the history of these carriers, but the use of them was the greatest, and practically to their full capacity.

"To justify the outlay required to provide the facilities, the net revenues resulting from such use should have exceeded those of any prior year—should have been sufficient not only to pay the charges on the additional property investment for a year such as 1913, but to provide money to pay those charges during lean years, *e. g.,* 1914, when the facilities are not fully used.

"The year 1910 is that of the preceding five years wherein the then facilities of the carriers were fully used, and is, therefore, the year properly comparable with 1913.

"When a comparison of 1913 with 1910 shows that, despite the expenditure of over $659,000,000 on property and an increased use yielding $186,775,000 increased operating revenues, the net operating income decreased $16,311,000; then, that comparison, the carriers urge, does prove the inadequacy of their revenues and that the results so shown are not such as to fairly justify the expenditure of additional capital for the further provision of similar facilities.

* * * *

"It is an absolutely new thing in the history of American railroading for a year like 1913, or a period like 1910-1913, when traffic was the largest ever recorded for a similar period of time, to show the position of the owners of the property to be worse off than any previous years or periods.

"It is strong and conclusive evidence

that some change has taken place in conditions, nor is it difficult to see what this change is, and what has brought it about. It will be disclosed by the collateral lines of inquiry; namely, increased cost of operation, and increased cost and difficulty of securing new capital.

"There has been a steady increase in transportation, maintenance of way and maintenance of equipment expenses, which are continuing in character, and the full effect of which is just beginning to be felt.

"Operating revenues are inadequate to keep pace with the expenses, and accordingly the money expended in procuring facilities has earned an inadequate return since 1903, and no return since 1910.

"The effect of these things is that at a time when the business of the carriers is largest in volume, and at a time when their investments and capital obligations are the largest, and their plant and equipment more complete and efficient, the carriers find themselves face to face with a declining net operating income.

"The result of this tendency toward diminishing net returns will be to check, if not altogether stop, the normal development of railroad facilities in this territory. In the last ten years they have been forced to spend $200,000,000 a year, and an equal, if not a greater, amount will be necessary for the future if the railroads are to properly handle the business of the country.

"The question is one not merely of railroad dividends, though that is a question

of vital importance, but one of the interests of the general public in seeing that the railroads are maintained in a high state of efficiency, for, as Mr. Prouty said in the 1910 case:

"'If, therefore, we are to rely in the future as we have in the past upon private enterprise and private capital for our railway transportation, the return must be such as will induce the investment. It is, therefore, not only a matter of justice, but in the truest public interest that an adequate return should be allowed upon railway capital.'"

The Economic Justification for An Increase in Freight Rates

WASHINGTON, April 28.

Oral argument that fundamental economic and financial conditions justify an increase in freight rates was offered the Interstate Commerce Commission to-day by Mr. Geo. F. Brownell, vice-president of the Erie Railroad. Mr. Brownell said in substance:

"If operating expenses and the new burdens imposed by law upon the railroads had not been enormously increased, they would now be in a highly prosperous condition, but it is the net income and not the gross that counts, and the adequacy of the net must be considered in connection with the amount of capital employed in the work and the aggregate amount of transportation service performed.

"The railroad industry is the nation's greatest industry, save only that of agriculture. In it is invested more than a tenth of the nation's wealth, and it gives direct employment, under normal conditions, to nearly two millions of the country's most intelligent and efficient workers, and indirectly to many more.

"But, except for its magnitude, it is in most respects like other industries. It provides transportation, which is all that it has to sell. Its prosperity and its ability to properly and adequately perform its important functions for the public depend upon its ability to charge such reasonably adequate transportation rates as will yield

fair compensation for the service, including a fair return upon the capital employed and one that will make the investment of new capital attractive to investors.

"Until recent years it was, like other industries, responsive to the law of increasing returns, under which an increase in the volume of traffic would produce a decrease in the unit of cost, and operating revenues would increase more rapidly than would operating expenses. In those early years, like other industries, it was able to control its expenditures and increase its charges to meet changed conditions.

"All this has changed. It has lost in large measure its ability to control its expenditures. Because of its quasi public character it is subject to governmental regulations and control to much greater extent than most other industries. It has been subjected to numerous requirements of legislatures and regulatory bodies, both Federal and State, which have increased greatly its operating and its capital expenditures. Many additional legislative requirements of this character are in various stages of incubation.

"The railroads are not here questioning the wisdom or expediency of these requirements, and will continue to the best of their ability to bear and sustain the financial burdens they impose; but they ask that they be not deprived of strength to accomplish the task—and remunerative rates are the very sinews of that strength.

"The railroad industry has ceased re-

sponding to that economic law; it has been forced to become an industry of decreasing returns. The increase in expenses and other burdens has also absorbed the savings from increased efficiency and from the investment of new capital. It is fast reducing net operating income to a point less than in previous years, when the business handled and the investment of capital were much less; and the prospect is that, upon the basis of existing freight rates, the rate of net return will continue to diminish, notwithstanding any further increase in the volume of business handled and in property investment.

"The irresistible processes of economic forces have reduced the money or purchasing value of railroad rates more than a third in the last fifteen years, more than 15 per cent. since 1903, and nearly 10 per cent. since 1908. The railroads have been compelled to accept pay for their services in currency which in fact, though not in form, has depreciated, and the reduction in their real compensation is quite as effective, if it is not so apparent, as though the nominal rates had been reduced but made payable in dollars of their former value.

"Efforts at readjustment to meet these new conditions have long been in evidence on every hand. Labor and capital require and secure higher rates than heretofore. Other industries have increased selling prices of their products, but in the railroad industry this readjustment has taken place only with respect to the railroad companies' expenditures for wages, mate-

rials, interest, etc., but not with respect to the railroads' charges.

"They have been restricted by statute from adapting themselves like other industries to the new economic and monetary conditions. They are still required to sell their services at rates of pay even less than those established years ago, after competition had forced them to a low level, and to take their pay in a depreciated currency, while they must buy their labor, buy their materials, borrow their capital and pay their taxes on the basis of present-day commodity prices.

"Why should not they be given permission to adopt their rates to these general economic changes just as the wage-earner or merchant, operating in a free market, without restraints of legislation limiting his power to fix his charges or prices, has been able to secure an adjustment of his charges or prices?

"The forces bringing about the rise of prices will necessarily lead to a rise of railway rates—or lead to railroad bankruptcy.

"The railroad companies have experienced constantly increasing difficulty in recent years in securing necessary new capital; and where they are able to market new securities for that purpose, they are unable to do so except at substantially lower prices or upon substantially higher interest bases. There has been during recent years a general, a substantial and a world-wide rise in interest rates.

* * * *

"The rates of interest yielded by under-

lying and well-secured outstanding railroad bonds at the present prices do not measure the price which railroad companies have to pay to-day to secure new capital. The competitive position in the struggle to obtain new capital out of the general investment fund has been impaired by a number of causes specially applicable to them.

"It is not an abstract question as to whether railroad credit generally has deteriorated as compared with other forms of credit. It is a practical question whether the kind of credit these railroads now have available has deteriorated as compared with their available credit in former years, by reason of factors beyond their control.

"They no longer are able to offer prior lien obligations. They are no longer able to dispose of capital stock. They are therefore compelled to offer junior securities which can be marketed only at lower prices and upon higher interest bases. Because of the existence of conditions unfavorable to the borrower, short-time notes have become an important factor in the investment market.

"Recently many companies have found that, owing to the conditions in the money market, it was not practicable for them to dispose of long-term bonds, and that financing by means of short-term notes presented the only practicable and available means of meeting their immediate necessities, affording as they do a relatively high rate of interest yield and generally being specially secured by collateral.

"An added cause of the decline in railroad credit is the increasing uncertainty

of the financial results of railroad operations and the risk attending railroad investments.

* * * *

"If the railroads are not allowed to charge such rates for their services as will produce the proper return upon the money invested, then how long will those responsible for the management of these properties be justified in continuing these expenditures of new capital, even if it should be available at reasonable rates of interest?

"How about their duty to their shareholders and those whom they have induced to purchase their securities? Must not that duty be considered as well as their desire to furnish better and additional transportation facilities for the use of the public? How long can they be expected to incur additional fixed or dividend charges through the continuance of expenditures that have proven to be unremunerative in the past and that in the judgment of the managers will continue to be unremunerative in the future, unless freight rates be advanced?

"Unless the railroads are permitted to increase their revenues by a reasonable increase in their rates for transportation services so as to meet the large and permanent increases in the cost of capital, wages, taxes and other expenses, then it will only be a question of time when there will result not merely the reduction and suspension of dividends, but also, in some cases at least, a default in the payment of interest and other obligations.

* * * *

"Now, when the need for capital is greater than ever, the ability to secure it rests more largely than ever upon the ability of the railroads to satisfy investors that they will be able to increase their net earnings. The great bulk of this new capital must be obtained from private investors. Increasingly less amounts can be obtained from surplus earnings.

"Being practically limited to the issue of junior securities, the physical property or securities they can pledge as security for the new issues are subject to various prior liens. Consequently the principal basis of the market value of the bonds and other corporate obligations which these carriers can now issue, as well as of their capital stock, is the income producing ability of the railroad. The rapidly diminishing price which can be realized for their bonds other than those that are underlying and well secured, and for their stocks, bear eloquent testimony as to the impairment in their net income producing ability which has already occurred and that which investors regard as a serious risk in the future.

"Unless the railroads are able to receive rates for their transportation services that will produce net revenues sufficient to meet reasonable dividend requirements and leave a reasonable surplus as a margin of safety to help defray the 'cost of progress,' secure the future stability of rates, establish confidence in the continuance of dividends and otherwise maintain credit, there is but little ground to believe that private investors will afford the necessary new capital."

The Nation's Policy to Encourage Investment in Railroad Properties

WASHINGTON, April 28, 1914.

Speaking on behalf of railroads in the Central Freight Association territory, Mr. J. L. Minnis, General Counsel for the Wabash Railroad, to-day presented to the Interstate Commerce Commission a special argument in reference to the meaning and purpose of our national laws regulating railroads. Mr. Minnis said in substance:

"Transportation by railroad in a country of great area like ours is a public necessity vital to every citizen, and therefore a facility which the Government is bound to afford for the use of the people. The Government may afford it either by owning and operating the railroads as a Government instrumentality, or by authorizing and encouraging its citizens, by the inducement of private gain, to own and operate them.

"At the beginning of the railroad era, Government ownership was, according to tradition, thought not only unwise, but incompatible with the permanency of our free institutions, in that it would place in the hands of the Executive Department the expenditure of vast sums of public money and the power to appoint, supervise and discharge the vast armies of organized men necessary to the conduct of the railroad business, which would so enlarge the

office-holding class as to greatly diminish, if it would not in time destroy, the influence of the people generally in the conduct of the Government.

"The Government, including the States, accordingly declared its public policy with respect to railroad transportation by authorizing the citizens, whom I shall call private investors, to construct, operate and develop the railroads of the country through the agency of corporations organized for private gain.

"By saying the Government authorized and encouraged private investors to construct, operate and develop the railroads for private gain, I mean that when the Government determined to rely and depend upon private investors to furnish the money necessary for so great an undertaking involving the well-being of the people, it must have engaged to make railroad investments attractive as the foundation of its policy, because a breach of that engagement would deprive the people of transportation or necessitate its conduct as a Governmental facility; and the engagement must, in duration, exist as long as the need for transportation exists.

* * * *

"I have said that policy was to foster and promote the operation and development of the railroad transportation of the country by means of private capital, through the agency of private companies. Now, what, in its final analysis, did that policy embrace?

"A railroad company has no owners in the sense that ordinary property has own-

ers; it is only a legal fiction or agency of the private investors who supply it with its capital, and as its officers act under their impulse, we may say that the legislative charters gave to the private investors the management, through the companies, of the railroad enterprises, and the right to fix, in their discretion, their reasonable tolls and fares.

"By these charters, then, the Government and the States, in substance, gave to the private investors the authority to construct and manage the railroads, and left them free to make as much money as they could obtain from the reasonable rates and fares they promulgated in their discretion.

"But, in return for these valuable grants, the private investors agreed, in the charters of the companies, to operate the railroads as public carriers for reasonable rates and fares.

* * * *

"The policy, then, embraced two elements—one of a private nature; namely, that the private investors represented by the companies should have the right to construct and manage the railroads, and make all the money they could obtain from the reasonable rates and fares they charged for transportation—and the other of a public nature; namely, that the private investors represented by the companies would operate the railroads as public carriers.

"The policy of Congress from the beginning was to rely upon competition to prevent excessive rates, and it was no doubt reasonable to assume that the en-

forcement of the salutatory provisions of the Hepburn Bill would confine competition to its natural and lawful field. In addition, it was a well-known fact that the carriers could not, without acting in combination in violation of the anti-trust statute, increase their rates as a body. Besides, the Hepburn Bill provided an effective means from preventing them from applying excessive individual rates.

"The competitive conditions prevailing since the enactment of the Hepburn Act rendered impossible an increase in the body of rates of the companies, except pursuant to combination which was forbidden by law.

"The amendment of 1910 has, then, opened up a way for the companies to lawfully increase the body of their rates, if necessary to encourage the investment of private capital in their railroads.

"Thus it will be observed that the Act to Regulate Commerce, whether viewed from the standpoint of the Government or the investor in the railroads, was designed to foster and encourage the operation and development of the railroads by private capital.

* * * *

"The amendment of 1910 invested the Commission with power to veto advanced rates filed by the companies if they be unreasonable. Now what is meant by a reasonable rate in that amendment?

"As we have seen, the amendment was enacted to promote the public policy of the Government, and it is obvious that in construing it we should make it useful in

carrying out that policy; and if we do so we find that the policy of the Government affords a definition of the reasonable rate referred to in the amendment, and it is this:

"A body of rates which will produce sufficient revenue to encourage private investors to supply the companies with the two hundred and twenty-five or fifty million dollars per annum which is necessary for their development.

"Such a rate or rates were contemplated by the amendment, because their promulgation is essential to carry out the policy of the Government. Such a rate would be a reasonable rate to the shipper, who ought not expect a lower rate than is necessary to supply the needed money for developing the railroads. It is likewise a fair rate to the companies, because if it be high enough to encourage new investors to supply needed money from time to time, it will produce a fair return on the money already invested in the properties.

"The amendment of 1910, therefore, in connection with the Act it amends, affords a fair workable method of carrying out the policy of the Government. If, then, what I have said is true, the policy of the Government can fail, only in its administration. This reflection heightens the duty of all of us who have duties to perform in relation to the railroads, because every good citizen must shudder at the suggestion of its failure.

"The question presented here is not the ordinary question involved in an attack upon the reasonableness or unreasonable-

ness of a rate—it is a question of giving effect to a great public policy. The concrete question to be decided is whether present rates have produced and are now producing sufficient revenue to the companies to justify the belief that much needed new capital may be obtained from private investors on reasonable terms.

"The only object of investing money is personal gain. Private capital is timid and often influenced by misapprehensions and unfounded suspicions. Investors owe no duty in the premises, and do not act by compulsion, but invest voluntarily if at all.

"Many misapprehensions, with respect to the purposes of the Act to Regulate Commerce, have been hurtful to railroad credit. By some it has been assumed that a share of the managements of the railroads has been vested in the Commission, when in fact, notwithstanding that the many public abuses which provoked the enactment of the Law were due to private management, the Law left the management with the investors represented by the companies.

"Others have assumed that the power vested in the Commission was designed to prevent the companies from earning a return on watered securities, when in fact, notwithstanding the rank abuses attending the financing of the companies by private investors—although likely not more scandalous than attended the transactions of the Government and the States in aiding the construction of the early railroads —Congress has not, directly or indirectly,

exercised any authority on that subject; in fact, the legislation now pending in Congress on that subject is designed to safeguard future investments in the railroads.

"The absence of an enactment in regard to abuses in connection with issuing securities, and the pendency of the present legislation, recognizes that Congress has in the past deemed it wise to allow a wide range of discretion in issuing railroad securities, with a view to encouraging private investments in railroads; and that it does not now regard it wise to further unsettle railroad credit by casting a cloud on the value of investments made in good faith in securities for which present value may not have been received.

"The harmfulness of the assumption that those securities are to be destroyed is obvious when we reflect that the supposition is that they are to be destroyed by the Government. It would be a slander on the Government to say that while it preserves its own obligations as sacred, it has conferred power on this Commission, one of its instrumentalities, to destroy a large class of investments which our citizens have made in good faith.

* * * *

"If the policy of the Government be executed, allowance must be made in the rates to cover the natural timidity of private capital, and if capital is to be acquired by the companies at reasonable interest, their rates must be high enough to foreclose question as to the security of railroad investments.

"It will not reassure the investor to say that the companies might be more profitably managed. That would frighten them away, and if it may ever be truthfully said that the managements of the companies are incompetent and wasteful, it will mean that the policy of the Government has failed.

"So the question is not one merely of theories with respect to maintenance or efficiency or accounting, but it is a broad, practical, common sense question which must be dealt with on broad lines."

The Case for the New York Central Lines

APRIL 27, 1914.

Mr. O. E. Butterfield, Assistant General Solicitor for the New York Central Lines, in presenting to the Interstate Commerce Commission the position of his Company, said:

"We bespeak for the testimony your most sympathetic consideration in the light of the presumption of right conduct which the Supreme Court has said attends the work of railroad managers, and we respectfully urge that you give to the testimony and judgment of the men who are personally responsible for the welfare of these great properties the weight which their selection by the multitude of stockholders of these various corporations and the responsibility thereby imposed upon them properly implies.

"One chief executive is a trained civil engineer with years of experience in the executive department of the greatest railroad property in the world; one is a trained locomotive engineer and operator whose service of an executive character has been devoted to several great properties in territory east and west of the Mississippi, and one has come up from a messenger boy to the presidency at the age of forty-nine of a system great enough to be treated by the Commission as one of three typical of the territory.

"They probably have different methods of reasoning. They doubtless reach conclusions by different mental processes, but the important thing is that they

reach the same conclusion, and it must not be forgotten that they are the men who are devoting their whole lives, bodies and souls to the success of these great properties. They are the men who in case something goes wrong may be charged with manslaughter. They are the men who bear the primary responsibility for safe and sufficient transportation.

"Will you, in the face of their common testimony on a vital matter, transfer that mighty responsibility from their seasoned shoulders to your own by denying what they ask, especially when the demand is practically unopposed by those upon whom the burden must ultimately fall?

* * * *

The New York Central

"In the 1910 case you held that the New York Central System should be considered as a unit in these words:

> " 'We must consider the value of the lines east of Buffalo in connection with its lines west, and so considering we must, of course, have regard to the financial results of the system as a whole.' (p. 56.)

"We have prepared and submitted for the New York Central System treated as a unit a statement of the net result of its operations for a period of eleven years. We have shown you that since 1910, when the figures were last before you, it has added $159,000,000 to its property investment devoted to the public use; in the year 1913 it performed services for the public in excess of those performed in 1910, the extent of which is indicated by

an increase in gross revenue of $49,000,000, and yet for the year ending June 30, 1913, it had of net corporate income available for dividends and surplus over $3,000,000 less than it had in 1910.

> "'In other words, since June 30, 1910, there has been added to the property investment about a million dollars a week, while the net corporate income in 1913 was less by about $63,000 a week than in 1910, indicating that expansion of business has caused a net loss to the stockholders.' (Wishart, p .)

"The $159,000,000 was mostly expended for additional facilities to accommodate the traffic of the system. In the freight service alone sixty-seven tons, or 14 per cent., were added to the average load of freight trains, and 24,711 more freight trains were operated than in 1910, and yet the net corporate income, notwithstanding this increased service, fell below that of 1910 at the rate of $9,000 a day.

"And we have shown in the testimony that in order to provide for the future the system must add to its property investment in the neighborhood of forty million dollars a year. The Public Service Commission of the State of New York, investigating the proposed general scheme of financing for the New York Central, reached this conclusion:

> "'The testimony is strong and convincing that a plan of financing in the future for the New York Central properties is necessary. Large expenditures, estimated to reach or exceed $400,000,000 in the next ten years, are already foreseen as detailed in the testimony, and to many of

these, aggregating very large sums, the New York Central is committed; and there is also like commitment on the part of some of the allied lines.' (Opinion in the matter of the Application for Leave to Issue Bonds, p. 63.)

Return on Capital Stock

"The per cent. of net corporate income on capital stock outstanding in the case of the New York Central System is 11.08 per cent., and the suggestion is made that this figure does not tend to support a demand for increased net revenue.

"A complete and conclusive answer to this suggestion is to be found in the fact shown on the same statement, that the capital stock per cent. on total capital obligations in the case of this system is only 27 per cent., whereas in the case of the Pennsylvania System it is about 50 per cent., as it should be.

"The testimony shows, and it is perfectly well understood, that a percentage of capital stock to total capital obligations which does not exceed 27 per cent. is an element of financial weakness, for the obvious reason that the margin between capital obligations which must be met and the net corporate income of the company is thereby made narrower.

* * * *

"The total capital obligations of the New York Central System, as shown by the statement June 30, 1912, amounted to $1,315,206,374. If one-half were stock the stock would amount to $657,603,187. Assuming that the funded debt of June 30, 1913, was outstanding

throughout the year, it appears from the statement that the average rate of interest paid was 3.99 per cent.

"The interest, therefore, upon $657,000,000 of bonds would have been $26,238,367, or $11,690,969 less than the interest paid in that year as shown by the statement—$37,929,336. This saving in interest of $11,690,969 would swell the net corporate income from $40,370,472 to $52,061,441, or 7.92 per cent. on the capital stock outstanding, which we have assumed to be 50 per cent. of the total capital obligations, or $657,000,000.

"In other words, if the per cent. of capital stock to total capital obligations on the New York Central System had been 50 per cent. instead of 27 per cent., the figure representing the net corporate income per cent. on capital stock outstanding would have been 7.92 instead of 11.08.

"The dividend paid averaged 5.44 per cent. Nobody will suggest that we were not entitled to 6 per cent. on the capital stock even if the capital stock had been, as it should have been, one-half the total capital obligations. It thus appears that we were entitled to $39,456,000 in dividends, which would have left out of the net corporate income of $52,000,000, $12,605,000, instead of something like $20,000,000, which we show in 1913, or a surplus less than one-third of the amount paid out in dividends.

"If, in 1910, our percentage of capital stock to total capital obligations had been 50 per cent., as it should have been, instead of 31 per cent., the net corporate

income percentage of capital stock outstanding instead of being 11.59 per cent. would have been, if my computation is correct, 8.6 per cent.

"We take it from the questions propounded to Mr. Smith upon cross-examination by Mr. Thorne, of Iowa, that his chief reliance in support of his interpretation of our figures will be the fact that in 1913 the net corporate income of the New York Central was better than it had ever been before in any year except the year 1910, but we submit that by every principle of business the net corporate income of the New York Central System for the year 1913 should have been greater than the net corporate income in 1910.

"In 1913 we were doing business with $159,000,000 more of property investment than we had in 1910, and we did $49,000,000 worth more business than we did in 1910. If we were in a condition of prosperity why should not our net corporate income in 1913 exceed the net corporate income in 1910?

"Not only that, but it should have been better in 1911 than it was in 1910. In 1911 we were doing business with $67,000,000 more of investment, and our total operating revenue was nearly $7,000,000 greater than it was in 1910, and yet our net corporate income fell off $15,000,000. The net corporate income in 1911 should have been more than $43,000,000 if the system was in a prosperous condition.

"In 1912 our property investment was $115,000,000 more than it was in 1910,

and our gross operating revenue was nearly $17,000,000 more than it was in 1910, and yet our net corporate income was $8,000,000 less than it was in 1910. The net corporate income in the year 1913 should have been more than $43,000,000 if the system was enjoying the prosperity which its increased investment and its increased business indicated."

The Railroad Campaign for Increased Freight Rates

WASHINGTON, May 1, 1914.

In a closing statement for the railroads in the case for a 5 per cent. increase in freight rates, Mr. Daniel Willard, president of the Baltimore and Ohio Railroad, said:

"It has been definitely shown in the record that the railroads, parties to this proceeding, have spent during the last ten years for additions and betterments—meaning, of course, additional and better facilities for transportation—an amount of new money exceeding $200,000,000 per year, and those who ought to know something of the future requirements of the same carriers, and speaking with a full knowledge of the history of the past, have said that a sum even greater than that will be necessary each year in the future for the purpose of providing such additional facilities and equipment as will be required to keep the carrying capacity of these carriers abreast with the productive growth of the country which they serve, and there is thereby presented a problem, easy or difficult as the case may be, of providing that large sum of new money required each year for such facilities.

"The carriers interested in this proceeding, speaking through their executives and counsel, have said that the financial results of the immediate past have not been such as to encourage the expenditure of new money for such facilities by these railroads, and realizing the vital importance of this question to all concerned, and all are concerned, the carriers endeavored

to meet the situation by means of new freight schedules which they caused to be prepared and filed with this Commission. These schedules provide as nearly as practicable for a small and substantially uniform advance upon all freight carried within the territory affected, such advance being approximately 5 per cent.

"The carriers did not overlook the fact that under certain conditions increased revenue might also be obtained from other lines of procedure. They felt, however, that the plan they proposed was under all the circumstances the best and most practicable one at that time, and one of the questions, and, as I view it, the most important question before this Commission at the present moment, is, Shall the new tariffs now on file be permitted to become effective? In that connection I would like to suggest that should this Commission in its wisdom approve of the tariffs just referred to, and should it later on find that any particular rate then in effect ought to be reduced, the Commission has ample power to order such reduction—certainly a condition not difficult to deal with.

"On the other hand, if this Commission should decide to withhold its consent with relation to the new tariffs, then unless those who represent the carriers in this proceeding are wholly mistaken, or worse yet, have intentionally sought to deceive this Commission for the purpose of imposing unreasonable rates upon the commerce of this country, the very serious problem will still remain, of how to obtain without undue delay the money with which to provide for the constantly growing busi-

ness. That those speaking for the railroads have not been wholly mistaken is perhaps indicated by the general apathy which is known to exist at the present time, so far as railroad improvement and betterment is concerned, particularly in the territory served by the carriers involved in this proceeding, and also by the further fact that equipment builders are working to-day at approximately one-third only of their normal capacity, and that, too, at a time when we are encouraged to believe that the maturing crops will exceed in volume anything in the previous history of this country. Under such conditions as in the past, it has been customary to find the car and locomotive builders working their plants to their fullest capacity, for the purpose of providing the equipment necessary to move the expected tonnage.

"At the present moment, whether we approve of it or not, whether we like it or not, and I am sure we do neither, the railroads as a whole, in Official Classification Territory, are compelled by circumstances to follow a policy of enforced economies which, if continued, means less efficient and less satisfactory transportation for that very important part of the United States, and it seems to me that our broad economic policy in that connection should contemplate more and better railroads rather than fewer and poorer railroads. This Commission has well said that 'Commerce and industry cannot afford to wait on transportation facilities.'

"During the entire progress of this

case it has been the constant aim and desire of those connected with its development, that the utmost care should be used in the preparation of statements and statistics, in order that the true situation might be clearly set forth. We have felt that because of what has come to be the semi-public nature of our employment as railroad officers, that the public as well as this Commission has a right to expect from us a somewhat more dispassionate attitude concerning the issues involved than would perhaps otherwise be looked for. I hope we have not fallen too far short of that standard.

The "Propaganda"

"There is one other matter which, while not strictly in the case, is none the less of the case, and to which I think I ought to refer before closing. Reference has frequently been made during the proceedings to a certain so-called propaganda, supposed to have been promoted by the railroads. Perhaps the best answer we can make to that is a plain statement of what we have done. We have done, or tried to do, two particular things: First, we informed the shippers of our needs and consulted with them as to the best means for supplying those needs; and, second, we took steps to keep them and the general public informed of the facts, both before and after the case was begun.

"After the rate decision in 1911, a number of my friends among the shippers said to me that the railroads had made a mistake in that case by not consulting with them—the shippers—before

definitely deciding upon a course of action. When it was decided to take the matter up again in the present case, I recalled the advice which my shipping friends had given me before, and to which I have just referred, and I concluded that in this particular instance I would do the thing that we have been criticised for not doing in the former movement, and I may add that my associates were strongly of the same point of view. With that in mind we met committees representing trades associations in Boston, Chicago, New York and other cities for the purpose of discussing with them the needs of the railroads, and we asked their consideration of a plan contemplating a small and substantially uniform increase of all freight charges. This, you will understand, was before any definite action was taken in this case, and we found substantial unanimity in favor of such a course, and it was finally decided to act accordingly. During the development of the case, however, I continued, when opportunity afforded itself, to meet and talk with shippers and trades bodies, as well as with representatives of the press. I explained to them the situation of the railroads as I understood it, and advocated their support of the plan which we proposed, and if what I did in that direction, as just explained by me, is equivalent to promoting and encouraging a propaganda in favor of a uniform advance in freight rates, then I am quite willing to assume full responsibility for so doing; but that anything improper was done in that connection, or that money

was spent for the purpose of influencing the press or any other organization, I most emphatically deny. It may be that I have been mistaken in some or many of my statements, but it is most certainly a fact that I believed what I said to be true when I said it, and furthermore, I believe it to be true now. I have felt that I ought, in justice to myself and to the railroads generally, to make this explanation.

Policy Toward the Press

"In addition to advising with the shippers directly as to our proposed policy, a definite program was decided upon with reference to the press during these hearings. Realizing the complicated character of the questions involved in this case, we have co-operated with the representatives of the press in Washington to the end that they should have clear and accurate statements of the evidence which we have offered. Furthermore, we have prepared short abstracts of the more important portions of the evidence, and distributed them to the press directly throughout our territory.

"Of necessity, however, the press could carry only fragmentary accounts of the hearings. We have, therefore, not relied entirely upon such reports as newspapers might make, but have seen to it that these abstracts of the testimony that was presented to the Commission were distributed direct to members of Congress, members of Legislatures of the States through which our lines run, members of State railroad commissions, officers of trade or-

ganizations, and others who were properly entitled to know the facts upon which we based our contentions before this Commission.

"It must be realized that the problems confronting these carriers goes far beyond the scope of this particular proceeding. Yet the facts which we have attempted to bring before the Commission in this proceeding are highly illuminating with reference to this general problem.

"We have restricted what we have distributed to the press or public to statement of fact actually presented to this Commission, and we have sent to the Commission itself copies of all materials distributed. Everything has been done frankly and candidly, not to mislead but to inform, and in accord with what we believe were considerations of sound public policy.

* * * *

"There is one other matter to which I also think I ought to make reference. It has been suggested that the carriers have attempted to bring to bear upon the Commission undue pressure in favor of a hasty decision, and there again I wish to disclaim any such desire or effort upon my part, or, so far as I know, on the part of any of the carriers connected with this movement. As is natural, I suppose, I personally have been very deeply interested in this case, and feeling as I have about the necessities of the carriers, and about the possibilities of the future in case relief could not be obtained, it may be that I at times seemed over-anxious. I hope I have not appeared so to this

Commission, but if I have, I beg they will understand that it simply reflected unconsciously the earnestness of my belief.

"I wish to take this occasion to thank the Commission and also its distinguished counsel, on behalf of my associates and myself, for the patience they have shown, and for the many courtesies extended, and while we appreciate fully the great responsibility which rests with the Commission because of the magnitude of the problem awaiting its solution, we are confident that because of its full knowledge of the subject, and because—I also venture to say—of its high sense of duty and its courage, it will reach a conclusion just and equitable to all concerned."

Testimony

General Statement on Behalf of the Railroads

Made before the Interstate Commerce Commission, at Washington, November 24, 1913.

By Daniel Willard,

President of the Baltimore and Ohio Railroad Company, and chairman of the Committee of railroad presidents appointed to present the railroad case to the Interstate Commerce Commission.

The railroads, parties to this proceeding, include practically all the lines operating in so-called Official Classification territory, which is substantially all that part of the United States east of the Mississippi and north of the Ohio and Potomac Rivers. The same companies were also parties in a similar proceeding before this Commission in 1910.

In its report of that investigation, known as I. C. C. 3400, the Commission made a comprehensive review of the whole subject and found that the carriers had failed to establish the need of additional revenue from increased rates at that time. It recognized, however, that it might come about in the future, as the carriers feared, that the net earnings from the then existing basis of rates would be inadequate, but held that this could only be determined by an actual test. It said, "If actual results should demonstrate that our forecast of the future is wrong, there might be ground for asking a further consideration of the subject."

Since 1910 sufficient time has elapsed to afford the actual test, and with the records of operation for the three intervening years available, the same carriers appear again, believing that the results of the actual test will now demonstrate the necessity for additional revenues or net earnings.

In I. C. C. 3400, page 19, the following language is used:

"Our railroads must be maintained in a high state of efficiency. This the public interest demands. Commerce and industry cannot afford to wait on transportation facilities. Our rates should be such as to render possible a high-class, not an extravagant service.

"It is generally conceded that within the next few years, if our means for transportation by rail are to keep pace with the calls upon them, very large sums must be expended in the way of new construction and new equipment. While some small portion of this may come from current earnings, the great bulk must be new capital. This capital must be obtained from the investing public.

"If, therefore, we are to rely on the future, as we have in the past, upon private enterprise and private capital for our railway transportation, the return must be such as will induce the investment. It is therefore not only a matter of justice, but in the truest public interest that an adequate return should be allowed upon railway capital."

While the carriers fully recognize and acknowledge their obligations to the public, and are alive to the responsibilities so imposed, they are helpless to fulfill these obligations, unless the financial result of their operation is such as to inspire the confidence of private capital and encourage the support of private enterprise, and the result of operation during the last three years is not such as to inspire the one or encourage the other.

Problem Not Merely of Dividends

This as we view it is the situation today, and if we are right, it is respectfully submitted that there is at this time no

more important question before the people, nor one the correct solution of which will do more to stimulate healthy commercial activity and promote industrial growth. It is a mistake to think that the problem is merely a question of dividends to railroad stockholders, although that feature is of course involved. The problem in a broad and true sense affects all interests, and the outcome of this particular case—whichever way it is decided —will mark an epoch, because it will, in effect, very largely determine whether we shall as in the past continue to look to private capital and private enterprise for our transportation requirements, or be compelled finally to accept the only alternative possible. It is recognized, of course, that railroad expansion and improvements must go on, and any tendency or condition that threatens to seriously check, if not completely stop such expansion in a large and important part of the United States, becomes, because of that fact, a matter of vital importance.

This commission in its report, I. C. C. 3400, said that the railroads had failed to establish a necessity for higher rates at that time. It also said, in effect, that it believed that from the increase in gross earnings which would undoubtedly come to the railroads, together with such economies as the Companies might effect, the net earnings of the future would be adequate, but it also said that should it come about that its views were not sustained by future developments, and should it appear at any time that there was a real necessity on the part of the carriers for increased revenue, in order that they might be in position to provide such facilities as the public required, that it would, upon request, give the matter further consideration.

Net Earnings Decreasing

During the first two years immediately following the decision, the commerce of the country showed little, if any, change in volume, but during the last fiscal year there was a marked activity in business of all kinds, and the gross earnings of the railroads generally for the year ended June 30, 1913, were the largest in their history. Notwithstanding the increased gross, however, the railroads in Official Classification territory continue to show decreases in net earnings, and as the Commission well said in the opinion above referred to, "It is the net, not the gross, we must consider." This decrease in net earnings has been due largely to greatly increased expenses, as pointed out in the petition which the carriers filed for rehearing on May 14, 1913, from which I will quote:

> "The cost of conducting the business of the carriers has been, and is being, steadily increased by increases in capital charges; increases in wages, in taxes, by burdens imposed by legislative enactments, such as extra crew laws, employers' liability and compensation acts, by the elimination of grade crossings, either in part or in whole at the expense of the carriers, and in various other respects, and it is felt that existing rates are insufficient to afford just and reasonable compensation and return to the carriers, and are unreasonably low in view of the value of the service afforded thereunder."

In the application for rehearing, just referred to, the carriers asked permission to advance freight rates in Official Classification territory on the basis of 5 per cent., with reasonable minima and with the modifications necessary to preserve differential relations. The Commission thereupon ordered that this proceeding of inquiry be instituted into the following matters:

"First, do the present rates of transportation yield adequate revenues to common carriers by railroad operating in Official Classification territory?

"Second, if not, what general course may carriers pursue to meet the situation?"

The railroads, parties to this proceeding, have prepared new tariffs, advancing freight rates as suggested in their petition, and have placed the tariffs on file with this Commission and at stations, so that all concerned might be fully advised regarding the effect of the proposed increase.

In order to develop the whole situation and to show the actual operating results obtained during the last three years, tables have been prepared, containing such information as is necessary to show the changes that have gradually come about in property investment, earnings, cost of operation, income, etc., not only during the three-year period, but also for the last ten years. This has been done because the influences which have brought about the existing conditions have been operating over a considerable period of time. The present situation, and the gradual but consistent tendency in that direction are both clearly indicated in these tables. Separate tables have been prepared for each of the several companies for the periods above mentioned, and a combined statement giving the consolidated figures for all of the companies has also been prepared, and all of the tables have been or will be filed with the Commission.

The Increased Investment

A brief reference to some of the more striking features in the statements may be pertinent at this time. The consolidated statement shows, for instance, that during the fiscal years ended June 30, 1911, 1912 and 1913, the railroads inter-

ested in this movement increased their property investment $659,862,000. The gross earnings of these roads during the last fiscal year were $1,424,119,000, or $186,775,000 greater than they were in the fiscal year ended June 30, 1910.

The operating expenses and taxes during the last fiscal year, for the same roads at $1,087,365,000 were $203,087,000 greater than they were in 1910; so that even though these railroads earned in gross during the last fiscal year $186,775,000 more than was earned three years previous, the net result, after paying operating expenses and taxes, was actually $16,311,000 less than it was in 1910, notwithstanding the fact that over $659,000,000 of additional money had been spent in the meantime for additions, betterments and equipment. These companies apparently not only failed to earn any return whatever upon the new capital invested, but saved even less from gross earnings, as return upon the original property investment, than they were able to show before this large additional expenditure was made.

Another table has been prepared showing the combined results, for the same period, of the Pennsylvania, New York Central and Baltimore and Ohio Systems, these particular companies having been referred to by the Commission in report I. C. C. 3400, as typical systems. This table shows that on these three systems during the three-year period mentioned, the property investment was increased $423,431,000. The combined gross earnings during the same period increased $109,380,000, while net operating income of all three systems, after paying operating expenses and taxes, was $8,380,000 less in 1913 than in 1910, notwithstanding the fact that over $423,000,000 had been spent in the meantime for better-

ments, additional equipment, etc. I might also add that in the single case of the Baltimore and Ohio System, the tables show that the property investment of that Company was increased over $56,000,000 during the same three-year period; the gross earnings in the meantime increased over $13,000,000, but the net operating income in 1913, after paying expenses and taxes, was $660,000 less than in 1910.

New Capital Earned Little or No Return

The separate reports of the roads or systems which will be submitted show that the same tendencies have operated in greater or less degree in the case of each individual company. In brief, it appears to have come about that the new capital invested in railroads in Official Classification territory, during the last three years, has earned little or no return; in fact, these properties generally are actually earning less net, after paying operating expenses and taxes, than they were earning at the beginning of the period, and before the $659,862,000 had been spent. It would seem that the mere statement of the case should be sufficient to indicate the serious situation which confronts not only the railroads in this territory, but also those industries and commercial undertakings which depend upon the railroads for transportation.

The result, as might be expected, of this constant tendency toward diminishing net returns, has been to seriously check, if not altogether stop, the normal development of railroad facilities in the territory affected. The tables show that during the ten-year period these railroads found it necessary to increase their property investment approximately $2,000,000,000, an average of about $200,000,000 per annum, and it is certain that an equal

if not greater amount per annum will be necessary to meet the requirements of the future.

Railroad managers would hardly be expected, under the circumstances just stated, to continue large capital expenditures for betterments and additions, if possible to avoid doing so, at least unless they had reason to believe that something had happened, or was about to happen, which would materially change the situation. It is believed that the preceding statements, if confirmed, are sufficient in themselves to justify the request which the carriers now make for advanced rates, unless it can be shown that the causes which have operated to bring about such results are of a temporary character, or have now ceased to exist. As already stated, while the matter has only recently reached an acute stage, the influences which have as a whole served to bring about the present condition have been operating for a number of years. Evidence will be submitted to show some of the contributing causes and their effects. It was shown in case I. C. C. 3400 that the advanced wage movement culminating in 1910 would increase the wage payments of the railroads in this territory approximately $34,000,000 per annum. The Commission, in its report, expressed the opinion that in view of the large recent increases, it seemed fair to assume that wages would not much increase in the immediate future. Evidence to be submitted, however, will show that subsequent to the general increase in 1910, a similar movement was inaugurated in 1912, and increases already gained by this last movement—largely as a result of mediation and arbitration proceedings—have greatly augmented the wage payments of these same carriers.

Increasing Wages

The award just recently announced by the arbitrators in the matter of the application for increase in wages by the conductors and trainmen in eastern territory, it is estimated, will give approximately $6,000,000 increased wages annually to the conductors and trainmen employed by the railroads affected, all of which are in Official Classification territory. The effect of this increase is not shown in any of the other figures which I am using at the present time.

A full statement, showing the general wage increases made during the three-year period, and the procedure under which they were obtained will be presented.

The total wage payment of the Baltimore and Ohio System has been increased by an amount in excess of $4,000,000 per annum, comparing the fiscal year 1913 with the fiscal year 1910, due to increased rates of pay and changes in working conditions. Approximately one-half of this amount, or $2,000,000, is due to advances gained by the movement begun in 1912, and subsequent to the increases considered by the Commission in the 1910 investigation. This indicates in a general way what has also taken place with each of the other companies. It should be borne in mind that the wages paid on the several roads interested in this proceeding are very nearly on the same basis, and with substantially the same working conditions.

Since 1910 there has been an increase in the cost of materials, due in part to increased use and higher standards, and in part to increased prices of certain materials entering largely into the cost of operation, such as fuel and track ties. The advance in price of these two items alone in the case of the Baltimore and Ohio Sys-

tem served to increase the expenses of that Company in 1913 more than half a million dollars above what they would have been had prices remained as in 1910.

Increasing Taxes

The amount paid for taxes by the Companies, parties to this proceeding, has shown constant increases during the whole ten-year period, and particularly during the last three years. The increase payment in 1913 over 1903 was $28,720,000 and the increase incident to the last three years was $11,579,000. In the case of the three systems selected by the Commission as typical, the amount of money actually paid as taxes during the year 1913 was $31,216,000, being $7,854,000 more than was paid in 1910.

Legislation, both State and Federal, enacted during the last ten years, has brought steadily increasing burdens upon the carriers. It is not proposed to question the merits of any of the legislation referred to in this connection. For the present purpose, it is sufficient to say that the effect upon cost of operation has been and will be the same, regardless of the merit of the measure. Among the measures which have affected cost of operation, I may mention: Employers' liability and compensation acts, full crew bills, so-called semi-monthly pay laws, safety appliance and standardization of equipment acts, and acts requiring the elimination of grade crossings, etc. The effect of the so-called full crew laws alone has been to increase the expenses of these carriers more than $4,000,000 per annum.

The public demands to-day a higher standard of service than ever before, and while it may be that the wishes of the public in this particular have not been

fully realized, none the less, much has been done in that direction, all of which is reflected in the cost of operation.

One other very important influence upon the expense of railroad operations, when considered in a broad sense, is the higher rate of interest which the companies have been obliged to pay in recent years for new money raised for improvement purposes. It is believed that in the case of the carriers particularly the cost of new capital has been made higher than it otherwise would have been, by the constantly narrowing margin between income and outgo, as it is upon this margin chiefly that the railroads in this territory must rely as the basis for raising additional capital.

Railroads Feel High Cost of Living

In short, the railroads have felt the burden of the increased cost of living, like all other enterprises or individuals, but unlike all others have not been permitted so far to raise their prices or adjust their charges in recognition of that burden.

Further, the rates which were in effect in 1910 have not in the aggregate been maintained—that is to say, while certain increases have been made during the period in mind, decreases have also come about, so that the general basis of rates has been lowered, to some extent by orders of the regulating commissions, and perhaps to an equal if not greater extent by commercial conditions or influences beyond the power of the carriers to resist. The net result of this movement is indicated in the statement that if the same rates and classifications which were in effect in 1910 had remained in effect in 1913, the freight earnings of the Baltimore and Ohio System, in the year last mentioned, would

have been over $900,000 greater than they actually were, and the net income would have shown the same increase. It should be understood that this tendency will continue to lower the general level of the rate structure for some time to come, and it should be taken into account when deciding upon any fair basis of rates for the future.

Other Nations Raising Freight Rates

In addition to the actual reduction in rates, above referred to, the continuous decline in the value, that is to say the purchasing power of money for a number of years past, has had the effect of diminishing still further the burden of the rate to the shipper, while at the same time increasing the burden of the carriers. This influence, reflected in the higher cost of operations, has been worldwide, and has been recognized by rate advances recently made by railroads in England, Italy, Switzerland, Belgium, Denmark, Russia, Austria, Hungary and other countries.

Having set forth the results of the operation of these carriers, to show that the revenue received upon the existing basis of rates is inadequate, and having pointed out some of the causes which have served to bring about this condition, we come now to a consideration of what general course the carriers may pursue to meet the situation.

If the situation is as I have shown, it is clear that the remedy must come from such changes, or such line of action as will serve to increase net earnings, and this result might be brought about by one of three methods or by a combination of some or all of them. A large reduction in cost of operation—other conditions remaining as at present—would produce larger net earnings. A large increase in

gross earnings, if the additional business could be handled with the present facilities and at present operating ratios, would also result in a larger net, and it is obvious that an increase in freight charges, other conditions remaining as at present, would bring about the same result.

I do not believe it will be possible to obtain the necessary relief either by reducing wages already in effect, or by making any very considerable reduction in the number of men employed; nor do I believe it will be possible to effect economies in operation of sufficent magnitude to have any saving effect upon the situation. Undoubtedly further economies will be brought about, but it is altogether likely that in the future, as in the past, they will be more than offset by increased taxes, by the effect of further legislation, which is almost certain to come about, and by other unavoidable increases in expenses.

Operating Economies

It appears from the tables submitted that coincident with increased property investment during the past three years, practically all of the railroads in this proceeding have largely increased the average tractive power of their locomotives and the carrying capacity of their cars, and have also made substantial increases in their train load, all of which has tended to more economical operation. Speaking more specifically, the Baltimore and Ohio Company, having made exceptionally large capital expenditures during the period last mentioned, was enabled to effect such increase in its freight train load as to result in a saving in the fiscal year 1913 when compared with 1910 of over 9,000,000 freight train miles, which, at an estimated cost of fifty cents

per train mile, accomplished a saving in transportation costs of approximately $4,500,000 per annum. This large saving, however, was more than offset by increases in other expenses, due to causes which I have already mentioned. I feel confident that the relief which is necessary if these carriers are to meet the standard suggested by the Commission in its report I. C. C. 3400 is not to be found in more efficient operation.

To Raise Rates Only Alternative

We next come to the question of large increase in gross earnings. Under certain conditions it might properly be expected that larger gross earnings would give increased net, but it so happens that the railroads involved in this proceeding are located in that part of the United States where commercial and industrial development has been most intense, and it will be shown that in order to increase the gross earnings of these particular companies to any great extent at the existing rates, it would be necessary for them to handle a volume of business much beyond their present carrying capacity. It would, therefore, be necessary to obtain and spend a large amount of new capital for increased facilities before gross earnings could be greatly augmented, and, as has already been shown, new capital invested in such facilities during the last three years has generally failed to earn any return whatever upon the investment. For this reason I do not think we can safely look for relief in the one direction of increased gross earnings, and this brings us to the third remaining method suggested—that is, increased charges, or increased rates and fares.

Inasmuch as the passenger fares charged by these several companies are

generally the result of legislative enactments, and the mail pay and express rates are also beyond the control of the railroads, it will be seen at once that no immediate relief and perhaps no very considerable relief at any time, can be obtained in these directions, and we are consequently forced to consider an advance of freight rates as the one available source of increased earnings. When this same question was before the Commission in case I. C. C. 3400, it was strongly urged by shippers who opposed the increase at that time, that, if it should be shown that the carriers did need increased revenue, and if it should also appear that such increased revenue ought to be obtained by increased freight rates, such advance should not be obtained as was then proposed, by a very considerable advance of some of the rates and no advance of others. It was pointed out that the rate structure, such as it was at that time, was the result of a long period of competition, plus the influence of many years of State and Federal regulation, and that commercial and industrial conditions generally had grown up in harmony with the existing structure, and it was urged that the relation of rates between different places and between themselves ought not to be violently or unnecessarily disturbed. The force of this argument has been recognized by the carriers, and in the present instance, while it is proposed to secure the necessary increased revenue by an advance of freight rates, it is also proposed that it should be obtained by an increase generally of 5 per cent., using minima of five cents per ton and of one-quarter of a cent per hundredweight, preserving so far as possible existing competitive adjustments as between localities. This method takes full cognizance of the claim previously made by the shippers that the ex-

isting rate structure should not be unnecessarily disturbed so far as relation between rates is concerned.

The amount of advance, or the percentage of increase now proposed is, in the opinion of those who are parties to this movement, too small to properly meet the exigencies of the case. It was felt, when the matter was first discussed, and that feeling has been strengthened with the passage of time, that a 10 per cent. increase of freight rates was necessary and should be requested at the present time, and while all felt that 10 per cent. was not higher than the conditions justify, the lesser advance of 5 per cent. was finally determined upon, because it was recognized that the whole rate situation was a matter of delicate relationship, and the individual carriers were naturally solicitous that nothing should be done to disturb the free and well-established movement of traffic. An increase of 5 per cent., it was thought, would not be large enough to affect seriously, if at all, commercial adjustments, and the increased net which would be gained by such an advance, while not of itself equal to the necessities of the case, would in any event be of assistance, and most important of all, the general increase of rates would serve to direct attention to the relationship which does and must exist between railroad charges and the total cost of operation.

It was urged in the previous hearing that the carriers at that time were unable to show by actual test that the rates in effect were insufficient, and that they failed to show the necessity for increased revenue. We believe that in the present case, the evidence, showing the need of additional revenue, is ample. It was suggested also that even if additional revenue were necessary at that time, the plan proposed was not the right one by which to

obtain it. The carriers accept that point of view, and now propose that the increased revenue be obtained by an advance of a small percentage of all rates in the territory affected. It is believed that the plan now submitted is the fairest and best one possible under all the circumstances.

In conclusion: I have shown that tendencies, which have been operating over a period of at least ten years, have resulted in such diminishing net returns that it has gradually come about that money invested in these railroads, because of the low average rates prevailing in so-called Official Classification territory, and for other reasons, does not earn the same return as money invested in other enterprises of similar kind or character. As a matter of fact, money so invested during the last three years, taken as a whole, has earned no return whatever. In view of all this, those responsible for the management of these properties would not be justified in continuing large expenditures of new capital for additional facilities and equipment, even if such capital were available at reasonable rates of interest.

$200,000,000 Capital Invested Each Year

I have also shown that the railroads in Official Classification territory have increased their property investment for new tracks, stations, locomotives, freight and passenger cars, and for other similar purposes at the rate of approximately $200,000,000 per annum during the whole of the last ten-year period, and it is certain that the continued annual expenditure of a sum even greater than that will be necessary for similar purposes, if the carrying capacity of the railroads in this territory is to keep pace with the normal growth of commerce.

The immediate and all-important question is, How shall these railroads obtain the new capital necessary if they are to provide the needed facilities and furnish the high-class service which the public interest demands, and to which the public is properly entitled? The answer, we think, is to be found in the following words which appear in the report of this Commission, from which I have already quoted:

"We should allow such rates which will yield to this capital as large a return as it could have obtained from other investment of the same grade. If rates formerly in effect have become insufficient, then higher rates should be permitted. Commerce and industry cannot afford to wait on transportation facilities."

Statement on Behalf of Lines in Central Freight Association

Made before Interstate Commerce Commission, November 24, 1913,

By Frederick A. Delano,
Receiver, Wabash Railroad.

In the 1910 case the Commission reiterated a principle it had frequently applied in previous cases involving the reasonableness of competitive rates, which is tersely stated in the following sentence taken from the Spokane case:

"We must, therefore, in fixing rates, have regard not altogether to any one particular railroad, but to the whole situation, and must consider the effect of whatever order we make upon all these defendants."

In applying this principle in the 1910 case, the Commission held that the Pennsylvania, New York Central and Baltimore and Ohio systems were, for the purpose of measuring the reasonableness of rates, fairly typical of the railroads in Official Classification territory.

Mr. Willard has indicated in his statement that the lines generally will offer evidence which will show that they are now entitled, on the authority of that ruling, to increase their rate.

That ruling was no doubt justified by the evidence submitted in that case, but we, who represent the Central Freight Association lines, do not believe the evidence in that case fully developed the whole railroad situation in the territory.

We concur in all that Mr. Willard has

said and believe the evidence will show that the systems I have mentioned considered alone are entitled to an increase in rates, but we are not satisfied with the ruling of the Commission that those systems are typical of the lines in the territory and believe that if the ruling should be affirmed as a fixed precedent for future guidance, its application will cause irreparable injury, not only to them, but also to the people they serve, and we have accordingly determined to bring to the attention of the Commission in the present case evidence which we believe will justify a reconsideration of the subject; and I have been delegated to briefly outline that evidence.

We will participate with the trunk lines in offering testimony on the general features of the case and will confine our separate presentation to the submission of additional evidence which, we believe, will show the ruling of the Commission, that the systems I have mentioned are fairly typical of the whole situation in the territory, ought not to become a fixed precedent, and that the "whole situation" in Central Freight Association territory is the fair measure of the reasonableness of the rates in that territory, and calls for a very subtantial increase in rates.

Official Classification Territory

Official Classification territory embraces three distinct and independent railroad territories and rate zones, which we will endeavor to show were created in a natural way in the evolution and development of the railroad business by economic conditions peculiar to each, but not common to two of them.

New England Territory

First, we have the New England territory, which embraces the New England States, and contains an area of approximately 64,000 square miles, inhabited by approximately eleven million people, or 174 inhabitants to the square mile, and traversed by 8071 miles of railway lines, which touch an average population, including New York City, of 1389 per mile of railroad. The population of that territory is dense, and, in the main, assembled in large industrial centers, the rural population of the New England States being only 17 per cent. of the whole population.

That territory does not produce fuel or other raw material, except granite, marble and lumber—and those do not comprise a substantial tonnage—and, while the traffic is dense, it consists largely of merchandise, manufactures and miscellaneous. For instance, approximately 45 per cent. of the tonnage of the two principal railroads in that territory, during the year 1912, consisted of that class of traffic.

The hauls in that territory are short. Little traffic passes through, except imports and exports, and the bulk of the traffic originating or destined beyond that territory is received from or delivered at its west boundary to lines running west and south, while the water-borne tonnage is largely hauled but short distances to inland towns.

These conditions, and the isolated location of that territory along the Atlantic seaboard, water competition and numerous other economic influences peculiar to it, which the evidence will bring out more in detail, have created a railroad territory and fabric of rates and traffic conditions peculiar to it and independent of the West and South.

Trunk Line Territory

We have next the Trunk Line territory, which embraces the area west of the Hudson River and Atlantic seaboard, north of the Potomac River and east of what is known as the "Western Termini"—a line extending from Buffalo through Pittsburgh to the Ohio River. This territory embraces an area of 112,000 square miles, and has a population of twenty-one million, or 207 inhabitants to the square mile, and is traversed by 23,777 miles of railway lines, which touch an average population of 889 per mile of railroad.

As in the New England territory, the population in the Trunk Line territory is found largely in its great cities—the rural population of the States included in the territory being only 30 per cent. of the whole.

The area and population of this territory are greater than the area and population of the New England territory, but the area per mile of railroad is only about one-half, which indicates that the former is more amply supplied with railroad transportation facilities than the latter. While the population per mile of railroad is greater in New England territory than in Trunk Line territory, the tonnage in the latter, per mile of railroad, is approximately twice the tonnage in the former. The character of the traffic is likewise substantially different in the two territories. For instance, the combined tonnage of products of mines carried by the Pennsylvania Railroad proper, the New York Central proper, and the Baltimore and Ohio System in 1912 was approximately ten times the same class of tonnage carried by the two principal railroads of New England. That class of tonnage comprised 66 per cent. of the total tonnage of the Pennsylvania and the Baltimore and

Ohio, but only 30 per cent. of the total tonnage of the two New England roads.

The evidence will show that Trunk Line territory comprises relatively the largest population per square mile, the greatest industrial activity and the densest traffic of any similar area in the country. It embraces the great manufacturing centers of New York, New Jersey and Pennsylvania, and the Pittsburgh district —the greatest tonnage center in the world.

In the early history of railroad building in that territory, the railroads were built westward from New York and other Atlantic seaboard cities on the south, and either terminated at Buffalo, on the lakes, or at Ohio River cities. The rates were made applicable to these lines as originally constructed, and the character of the traffic, physical surroundings and other economic influences, which we will point out more in detail in the evidence, built up and have preserved to this day a railroad territory and a fabric of rates and traffic conditions peculiar to it and independent of and distinct from the territory east, west and south of it.

Central Freight Association Territory

The remainder of Official Classification territory—the vast area extending from Trunk Line territory to the Mississippi River and the lakes—comprises what is known as Central Freight Association territory.

The portion of that territory in the United States contains an area of approximately 186,000 square miles, inhabited by about nineteen millions of people, or 122 inhabitants to the square mile, as compared with 207 in Trunk Line territory and 174 in New England territory, and is traversed by 35,849 miles of rail-

road, which touch an average population of 506 per mile of railroad, as compared with 889 in Trunk Line territory and 1389 in New England territory.

It will be noted that, while this territory contains two million less population than Trunk Line territory, its area is 74,000 square miles greater, and is traversed by 12,072 more miles of railroad, and while it contains about eight million more inhabitants than New England territory, it comprises more than three times the area and is traversed by 27,778 more miles of railroad.

The population of the principal States in Central Freight Association territory is about equally divided between the cities and the rural sections, the percentage of rural population being 46 per cent. of the whole. But it does not follow that it has too many railroads or too much mileage, because, as we have seen, the population is thinly spread over 186,000 square miles, as compared with a two-million greater population in Trunk Line territory assembled on 112,000 square miles, and only eight millions less population in New England territory assembled on 64,000 square miles.

The traffic in this territory is diversified and very general in character, and is substantially different in many respects from the traffic in the other territories.

Special Nature of Middle West Railroads

This territory was created largely by physical conditions and natural development and growth of population. Its numerous lakes and rivers, some of which form its boundaries, attracted to their borders the early settlements and cities, and in time came Chicago and St. Louis, its two chief centers of population. The

territory is comparatively level, which facilitated railroad building, and as population increased, railroads were constructed in all directions, the objective points being, naturally, lake and river cities.

It is a well-known fact that in the development of that territory water competition has always been an important factor, and that the railroads have promoted the growth of population and industrial development by low rates. Again, railroad building at times has been in excess of the growth of the country, and caused abnormal competition, resulting in lower rates.

At the time the Government entered upon the regulation of rates, those prevailing in Central Freight Association territory, as a body, were comparatively the lowest rates prevailing in any section of the country, and in recent years they have been still further reduced—and especially passenger fares, which have been reduced from 3 to 2 cents per mile, or 33 1-3 per cent.—in all the States in that territory.

The influences I have mentioned, which we will show in detail in the evidence, have resulted in the bankruptcy of a substantial portion of the railroad mileage in the territory and in depleting the earnings and debilitating the credit of the remaining lines to an extent which, unless relieved by prompt and substantial advances of rates, will naturally result in impeding the commerce and transportation of that section of the country.

On the evidence, we will urge that, owing to the different conditions existing in these three component parts of Official Classification territory, lines traversing two of these sections ought not to be regarded as typical of the whole situation in the territory or in the component parts. Undoubtedly a great many im-

portant considerations are common to all the lines in the three component parts, and accordingly the showing of the Pennsylvania, Baltimore and Ohio and New York Central Systems will be of great value to the Commission. We do not mean to disparage, or in any way discredit, the showing of those systems, but merely contend that their showing is not conclusive or typical of the entire situation.

Grouping of Lines in C. F. A. Territory

We believe it will be pertinent to show the conditions prevailing in Central Freight Association territory, and will, therefore, offer in evidence, among other things, statements of the mileage, earnings and results of operation of the lines located therein, with a view of indicating the "whole situation" in that territory.

There are, in the territory, 35,849 miles of railroad (exclusive of the mileage of switching and terminal companies) owned by 93 companies.

We have omitted switching and terminal companies because they perform a special service on an arbitrary basis, generally fixed on a per-car rate.

The mileage, however, includes the mileage in C. F. A. territory of the Mobile and Ohio; St. Louis, Iron Mountain and Southern; Louisville and Nashville; Southern Railway; St. Louis Southwestern; Chicago, Burlington and Quincy, and Norfolk and Western—1892 miles, or 5.3 per cent. of the total—but we exclude that mileage from our figures, because it is only 7 per cent. of the mileage of those companies, and the results of their operation cannot be segregated. As 93 per cent. of the mileage of these companies is in higher rate zones, it is obvious that the operations of these companies as a whole would be immaterial.

This leaves 33,957 miles of railroad, or 94.7 per cent. of the total, in the territory.

In presenting our figures we will be obliged to add to that mileage the results of the operation of 264 miles of the Chicago and Alton, 2628 miles of the Illinois Central, and 859 miles of the Wabash. The principal operation of these three companies is in the territory, the 3751 miles outside being west of the Mississippi River or south of the Ohio River, in higher rate zones, and we include them because the results of operation of the mileage in the territory cannot be segregated.

We will also include 3401 miles of the Baltimore and Ohio and Erie, which are located in Trunk Line territory, because the operation of this mileage cannot be segregated from their lines in the territory.

Special Grouping of C. F. A. Railroads

Our figures will, therefore, embrace the results of operation of 41,109 miles of railroad, and we will arrange them in four groups:

Group One—embraces the 41,109 miles of railroad I have mentioned, except 6443 miles of Erie Lines east of Marion, Ohio, and the B. and O. System, and 2729 miles—the aggregate mileage of 46 short railroads in the territory which, together, earned less than eight million dollars in 1910.

Group Two—embraces the Erie Lines east of Marion, Ohio, and B. and O. System, aggregating 6443 miles, 3401 of which are located in Trunk Line territory. This mileage is grouped together because the results of operation of the mileage in C. F. A. territory cannot be segregated.

Group Three—embraces 28 of the 38 roads in Group One, with an aggregate mileage of 23,167 miles, which includes

19,416 miles, or 51½ per cent. of the entire mileage in the territory, and embraces such important lines as the Big Four System; the Vandalia; the Chicago and Eastern Illinois; Nickel Plate; Grand Trunk Western; Grand Rapids and Indiana; Pere Marquette; Cincinnati, Hamilton and Dayton; Illinois Central; Chicago and Alton, and Wabash.

Group Four—embraces 46 companies with an aggregate mileage of 2729 miles, or 7½ per cent. of the total mileage in the territory, which, together, in 1910 earned less than eight million dollars. These roads are important factors in the development and commerce of the respective communities they serve, but, as a rule, they are in great financial distress, and, being short lines, we thought it natural to group them together.

Lines Representing the Whole Situation

We believe that Group Three embraces lines which are fairly representative of the whole railroad situation in the territory, and for that reason we will refer to it in some detail.

We have omitted from this group the main line connections of the Trunk Line Systems—the Lake Shore, the Michigan Central, the Pennsylvania Company and the Panhandle—although the figures will show that their prosperity has been substantially impaired during the last few years by a constantly increasing ratio of expense to earnings.

The fact, however, that this mileage as a whole was constructed at a very low capital charge and forms integral parts of the best and strongest railway systems of the country, to say nothing of the credit and business they have enjoyed from their affiliations and the returns on their outside investments, place them in a class by themselves. These facts (which

will be shown more in detail in the evidence) will conclusively prove that, while those lines, no doubt, need an increase in rates, they do not belong in the group of railroads which fairly represents the railroads in the territory.

We have also excluded from Group Three the Pittsburgh and Lake Erie, Bessemer and Lake Erie, Hocking Valley, Kanawha and Michigan, Toledo and Ohio Central and Wheeling and Lake Erie. These roads are located in a comparatively small area between the Great Lakes and the iron furnaces and coal mines of Ohio and their traffic is not of a general nature, but substantially confined to the products of mines; their tonnage of these products during 1912 being 78.6 per cent. of their entire tonnage, but the exceptional feature of their situation lies not only in the volume of this mineral traffic, but in the fact that by reason of hauling iron ore in one direction and coal in the reverse way, they have a balanced traffic, which produces an unusually favorable operating condition.

While these lines are within the boundaries of the territory, they do not enter into the general railroad situation and cannot be included in a group of roads fairly representative of all the railroads in the territory.

We have also excluded from Group Three the 46 short lines whose aggregate earnings for 1910 were less than eight million dollars, because, as we have said, those lines are short, their earnings are small, and they are, as a rule, in financial distress and ought not to be included in a group of roads representative of the railroads in the territory.

We have included in Group Three 28 companies, with an aggregate mileage of 23,167 miles, which traverse all parts of the territory and participate in the general traffic of that section of the country.

We believe a mere glance at the map of this large mileage (23,167 miles) will indicate that it is fairly representative of the territory. In any event, we may be assured that if this mileage is not influential in determining the reasonableness of rates, the prosperity, commerce and development of the whole territory will be placed in jeopardy.

Salient Facts From the Evidence

On the evidence we will present, in detail, our contentions, but my present purpose will be served by merely calling your attention to a few salient facts.

This great network of railroads covering the entire territory, during the year ending June 30, 1910, earned 239 million dollars, and during the year ending June 30, 1913, 275 million dollars, or a gross increase of about 36 million dollars; but in the former year the operating expenses and taxes were 182 million dollars, and in the latter year 227 million dollars, or an increase in expenses of about 45 million dollars, resulting in a decrease in net revenues, after payment of taxes, of over nine million dollars, and in net corporate revenue of more than 16 million dollars.

As stated in other words, the ratio of operating expenses and taxes to earnings, during the same period, increased from 76.3 per cent. to 82.8 per cent.

These same roads, during the year ending June 30, 1908 (which will be remembered as a panic year), earned 212 million dollars, and during the year ending June 30, 1913, 275 million, or an increase of 63 million; but, during the year ending June 30, 1908, the operating expenses and taxes were 165 million, and the year ending June 30, 1913, 227 million—an increase of about 62 million.

Net Corporate Income Decreasing

Now, despite the fact that during that same period more than 175 million dollars were put into additions and betterments, the net, after deducting operating expenses and taxes, showed an increase of only $800,000, while the net corporate income actually decreased about eight million dollars.

As we have shown, this mileage comprises 51½ per cent. of the entire mileage in the territory, and if we add the mileage of the 46 short railroads, we will have 59.1 per cent. of the entire mileage of the territory, all of which is in a deplorable financial condition.

While, as we have said, the evidence will show the lines embraced in Group Three are fairly representative of the whole situation in the territory, the lines embraced in Group One show a result almost equally deplorable, especially in the last few years.

Group One, as we have seen, embraces 78.6 per cent. of the entire mileage in the territory, including all the strong lines, and besides, 3751 miles outside of the territory in higher rate zones; and excludes only the 46 short lines which are in financial straits, and the Erie east of Marion, Ohio, and the B. and O. System, and the short projections of southern lines into the territory.

Group One, in the fiscal year 1910, earned $457,000,000, and in the fiscal year 1913, $533,000,000, or showed an increase of $76,000,000, but operating expenses and taxes during the former year were $329,000,000, and during the latter year, $417,000,000, or an increase in expenses and taxes of $88,000,000, resulting in a decrease in net revenue, after deducting operating expenses and taxes, of $12,000,000, and a decrease in net corporate income of $17,500,000.

These large decreases resulted in the

face of the investment of vast sums of new money for additions and betterments —in other words, notwithstanding the investment of this new capital, the ratio of operating expenses to gross revenue increased from 72 per cent. in 1910 to 78.2 per cent. in 1913.

Latest Figures Less Encouraging

The figures for the first two months of the present fiscal year are still less encouraging; for instance, the net revenue, after deducting operating expenses and taxes of the lines in Group One for the two months mentioned, decreased about $4,500,000 as compared with the same two months last year, while the decrease of the lines in Group Three was about $2,000,000 as compared with the same months last year.

The evidence will show that the lines in Central Freight Association territory are confronted with the expenditure in the near future of millions of dollars in the separation of grades in various cities, on which they will receive no adequate return, and many of the lines have not the credit to raise this money. This circumstance, in view of the present conditions of the roads, presents a serious situation which calls for prompt relief.

It will be obvious from the evidence that a 5 per cent. increase in rates will not be adequate to meet the demands of the territory. As I have said, the rates in that territory, both freight and passenger, are the lowest rates prevailing in the United States, and the interests of the people of that rapidly growing and developing section of the country, to say nothing of the carriers, require, in the near future, a readjustment of the rates, both freight and passenger, to a basis which will enable that territory to have good railroads and the people to have efficient and adequate service, and to progress measurably with the other sections of the country.

How the Demand for Railroad Facilities Has Increased

December 3, 1913.

The railroads of the Eastern District now applying for a 5 per cent. increase in freight rates have filed with the Interstate Commerce Commission a statistical exhibit showing the growth of population, railway building and railway traffic during the past decade.

* * * *

The territory from which these statistics have been drawn is substantially that part of the United States east of the Mississippi River and north of the Potomac and Ohio Rivers.

Railroad Building

1. There are some forty-nine railway systems in this territory, and in 1903 they were operating *55,706 miles of line. This does not include double trackage or sidings—merely the distance between terminals. In the decade succeeding—that is, through the year 1912—the increase in new line was only 3619 miles, or about 362 miles a year; less than one mile a day over this immense territory. Reduced to a percentage, the increase amounted to 6½ per cent.

In 1909 and 1910 only 52 miles and 199 miles respectively of new line were constructed. While the percentage of increase of 1912 over 1903 was 6½, that of 1912 over 1910 had dropped to less than 1½ per cent.

During the period of ten years these 49 railroad systems double-tracked — or,

*All statistics in this exhibit were taken direct from Interstate Commerce Commission records.

where there were double tracks, added a third or fourth track—over 10,465 miles of track, or an average of almost 1050 miles a year. Thus they had 15½ per cent. more double trackage in 1912 than in 1903, although the increase of 1912 over 1910 was but 3.54 per cent.

In 1903 these systems had a total of 95,349 miles of all kinds of tracks, including double tracks, yard switching tracks and sidings. This had grown to 115,683 miles by 1912—an increase of 21⅛ per cent., or an average increase of 2000 miles a year. The increase of 1912 over 1910, however, was only 4.17 per cent.

* * * *

POPULATION

2. The population of this section of the United States was, in 1903, 36,381,924. By 1912 it had increased by more than six millions—an annual average growth of 612,000. The population in 1912 was almost 17 per cent. greater than in 1903; and in 1912, 3.62 per cent. in excess of what it had been in 1910—*i. e.*, 41,021,267 as against 42,508,230.

Thus, in ten years' time these same railroads had come to have 117 persons to serve where previously they had had 100. They had but 106½ miles of new extension track as compared with every 100 miles in 1903. They had 115 miles of double trackage for every 100 miles they had had, and 121 miles of track facilities as compared with 100 miles in 1903.

In other words, the 17 per cent. of increased population in this decade, while it

found an increase of 15 per cent. of double trackage and 21 per cent. of tracks of all kinds, had had built for it only 6½ per cent. of new line.

These miles of double, third and fourth tracks and sidings constituted the emphatic note in this decade, and drew attention to the intensive development of the railroads rather than the extension of their lines.

* * * *

3. Railway traffic, both freight and passenger, increased much faster than the facilities for handling either. In 1903 the freight traffic amounted to carrying one ton of freight 93,948,275,807 miles, or, to reduce it to an almost incomprehensible comprehensibility, this ton of freight, could such a thing have been possible, might have made almost four million odd trips around the globe.

In 1912 these 49 railway systems were transporting one ton of freight 143,803,436,298 miles, which means that the ton of freight had gained the right to about two million additional world-girdling trips. The increase of the year 1912 over the year 1903 was 53 per cent. The annual average increase of the second half of the decade over the first half was 22 per cent.

The passenger traffic in 1903 was the equivalent of carrying one passenger 10,985,949,080 miles. In the supposititious case of globe girdling this passenger would have been carried around the globe 400,000 times—*i. e.,* the railroad transportation in that year was equal to carrying 400,000 passengers once around the world.

The passenger traffic in 1912 had increased 41⅛ per cent., which means that the lone passenger was now carried 15,578,111,594 miles; or another load of about 200,000 passengers had been added to the railroad annual globe-encircling trip.

The passenger traffic also saw an increase of 20⅜ per cent. in the annual average of 1908-1912 over 1903-1907.

The freight-traffic increase correspondingly was 22½ per cent. As the percentage of increasee of freight traffic in 1912 over 1910 was 3.69, passenger traffic grew more rapidly, since it attained an increase of more than 5 per cent.

Thus, as compared with an increase of 17 per cent. in population between 1903 and 1912, the freight traffic increased 53 per cent. and the passenger traffic 42 per cent. In other words, freight traffic increased three times, and passenger traffic more than twice, as fast as population.

Between 1910 and 1912 the rate of increase in freight traffic was slightly greater than the growth of population, while the rate of increase in passenger traffic was almost twice as great as that of population.

* * * *

In presenting the case of the railroads to the Commission, Mr. Daniel Willard, President of the Baltimore and Ohio Railroad Company, commented on this situation in these words:

> "The railroads in Official Classification territory have increased their property investment for new tracks, stations, locomotives, freight and passenger cars, and for other similar pur-

poses at the rate of approximately $200,000,000 per annum during the whole of the last ten-year period, and it is certain that the continued annual expenditure of a sum even greater than that will be necessary for similar purposes if the carrying capacity of the railroads in this territory is to keep pace with the normal growth of commerce.

"The immediate and all-important question is, How shall these railroads obtain the new capital necessary if they are to provide the needed facilities and furnish the high-class service which the public interest demands, and to which the public is properly entitled?"

Comparison of Increase in Population, Railway Mileage, and Railway Traffic, Railways in the Eastern District, Fiscal Years 1903 to 1912.

Year	Population	Railway Mileage Operated			Railway Traffic	
		Miles of Line	Miles of Main Track	Miles of All Tracks	Ton-Miles	Pass'r-Miles
1903	36,381,924	55,706	68,262	95,349	93,948,275,807	10,985,949,080
1910	41,021,267	58,499	76,037	111,051	138,692,142,554	14,825,472,236
1912	42,508,230	59,325	78,727	115,683	143,803,436,298	15,578,111,594
Annual Average 1903-1912	39,395,592	57,760	73,811	106,347	119,394,875,236	13,433,849,976
1903-1907	37,707,450	56,863	71,095	101,044	107,471,361,160	12,176,229,355
1908-1912	41,083,734	58,656	76,528	111,651	131,318,389,312	14,691,470,596
Per Cent. of Increase						
1912 over 1903	16.84	6.50	15.33	21.33	53.07	41.80
1912 over 1910	3.62	1.41	3.54	4.17	3.69	5.08
Annual average 1908-1912 over 1903-1907	8.95	3.15	7.64	10.50	22.19	20.66

Authorities:
Reports of the Bureau of the Census.
Returns of the Railways to the Interstate Commerce Commission.

Prepared by
Bureau of Railway Economics
Washington, D. C.

Explanatory Note

The population figure shown for 1910 is drawn from official compilations of the Thirteenth Census; those for the other years are estimates based upon the rate of population growth between 1900 and 1910. The method underlying these estimates is that of the Census Bureau itself. The railway statistics of this table are those of the forty-nine railway systems covered by the compilations of the Bureau of Railway Economics.

Railroad Expenses Increase Faster than Earnings

December 4, 1913.

Expenses have increased so much faster than revenues that the net operating income of Eastern railroads for 1913 was $16,311,000 less than it was in 1910, and this notwithstanding the fact that more than $650,000,000 of new money has been put into these railway properties in that time.

This, in brief, coupled with the present difficulty of obtaining new capital, is, in a word, the railroad case for increased rates. Details are presented in an elaborate statistical compilation submitted to the Interstate Commerce Commission by the railroads interested.

1. The revenue or money received from the operation of these railroad systems had attained the sum of $1,205,155,435 in 1910. The increase in 1911 was some $14,000,000, while 1912 held the gain and added to it $38,000,000. In 1913 this revenue had grown to $1,386,073,429. This showed an increase in revenue of $181,000,000 for 1913 over 1910, or in a matter of three years time.

The largest item in this revenue was, of course, that derived from carrying freight. This was, in 1910, $860,403,390. Passenger fares collected amounted to a little less than one-third of this sum, or $260,234,927. To avoid the constant repetition of large figures, the increased receipts from freight charges were, successively, in 1912 and 1913, over each preceding year, $30,000,000 and $105,-

000,000, while 1911 decreased over 1910 $3,000,000, while in the same years the passenger department receipts increased $14,000,000, $5,000,000 and $14,000,000. Thus, passenger and freight receipts were in the year 1913, $165,000,000 in excess of what they had been in 1910.

To show what each mile of track was earning in each of these years, it can be said that the return was $20,611 for each mile in 1910, and that in 1911, 1912 and 1913 the amounts respectively were $20,850, $21,271 and $23,430. Separating them again for the four successive years, the freight returns for each mile were $14,715, $14,654, $15,006 and $16,770, while the passengers returned in fares $4451, $4692, $4720 and $4965.

Looked at from another angle, the percentage of increase in revenue made by each mile of track in the year 1913 over 1910, 1911 and 1912, respectively, was 13.7 per cent., 12.4 per cent. and 10.2 per cent.

* * * *

Where the Money Went

2. There are three items which make up between 90 and 95 per cent. of the expenses of operating a railroad. In the order of their magnitude they are: Transportation, maintenance of equipment—which means its rolling stock—and the maintenance of the roadbed, bridges, etc.

These 49 railways spent $410,734,001 for transportation charges in 1910. Their maintenance of equipment consumed $195,727,105, while to maintain their railway tracks, bridges, etc., demanded an expenditure of $145,273,335. As the total

expenses—money paid back to the public—for the running of these railroads in 1910 was $800,662,522, it will be seen that the three items mentioned accounted for more than $750,000,000, or above 15/16 of the money paid out.

The sums of money which these 49 railway systems were called upon to pay during the years 1911, 1912 and 1913 had increased steadily from year to year until in 1913 the increase over the year 1910 amounted to $92,000,000 in transportation charges, $51,000,000 in equipment maintenance charges and $35,000,000 in maintenance of way and structure charges.

3. These railroads paid out in taxes for the successive years, 1910, 1911, 1912 and 1913, $43,140,475; $45,898,383, $51,055,738 and $53,946,004. The percentage of increase in taxes in 1913 over 1910, for each mile of line, was 23.6 per cent. When the total amount of taxes had been slightly more than forty-three million dollars in 1910—in the space of three years the tax expense had been increased almost eleven millions of dollars, or, to be accurate, $10,805,529.

* * * *

THE RESULT

The operating income for these 49 railway systems in 1910 was $362,006,165. This income fell to $321,927,779 in 1911, picked up to $327,453,816 in 1912 and to $347,803,564 in 1913. Thus the actual loss in income in three years was about $14,000,000, and this in the face of an increase of annual receipts of more than $180,000,000, and the addition to the rail-

roads property investment of more than half a billion dollars in new money.

Each mile of the 59,157 miles of railway line operated in 1913 showed a decrease of 5 per cent. in net operating income over each mile of the 58,471 miles in use in 1910.

* * * *

To recapitulate: The money received by the railroads for the business they handled on each mile of line was greater in 1913 than in 1910 by $2819, or 13.7 per cent., yet the increase in expenses more than balanced this increase and resulted in a decrease in operating income of $312 a mile, or 5 per cent.

The money received in 1913 was greater by $181,000,000 than in 1910, but the expenses and taxes had increased $195,-200,000. Thus the net operating income of these 49 railway systems was, in 1913, less by over $16,000,000 than it was in 1910, notwithstanding the expenditure of more than $650,000,000 for improvements.

Filed with Interstate Commerce Commission

Compilation in matter of application of Eastern railways for increase in freight rates, 1913.

Operating Revenues, Expenses and Income, in the Aggregate and Per Mile of Line; Railways in the Eastern District, Fiscal Years 1910 and 1913

Account	Aggregate Amount		Amount Per Mile of Line		Increase Per Mile, 1913 over 1910	
	1910	1913	1910	1913	Amt.	Pct.
Total Operating Revenues	$1,205,155,435	$1,386,073,429	$20611	$23430	$2819	13.7
Freight	860,403,390	992,078,364	14715	16770	2055	14.0
Passenger	260,234,927	293,721,286	4451	4965	514	11.6
Other transportation	73,114,526	83,942,059	1250	1419	169	13.5
Non-transportation	11,402,592	16,331,720	195	276	81	41.6
Total Operating Expenses	800,662,522	984,314,319	13693	16639	2946	21.5
Maint. of way and struct.	145,273,335	180,535,226	2484	3052	568	22.8
Maint. of Equipment	195,727,105	246,690,465	3347	4170	823	24.6
Traffic	22,676,752	24,116,559	388	408	20	5.1
Transportation	410,734,001	502,086,884	7025	8487	1462	20.8
General	26,251,329	30,885,185	449	522	73	16.3
Net Operating Revenue	404,492,913	401,759,110	6918	6791	d127	d1.8
Outside Oper.—Net Revenue	653,727	def 9,542	11	def*	d11	
Taxes	43,140,475	53,946,004	738	912	174	23.6
Operating Income	362,006,165	347,803,564	6191	5879	d312	d5.0
Average Mileage Represented 1910			58,471			
Average Mileage Represented 1913			59,157			

* Less than one dollar. def Deficit. d Decrease.

Explanatory Note

This table is cumulated from monthly returns of revenues and expenses made by the railways to the Interstate Commerce Commission. There are included the returns of the forty-nine railway systems covered by the compilations of the Bureau of Railway Economics, with the exception of certain small roads that have annual operating revenues of less than $100,000, and are therefore excused by the Commission from the requirement of filing monthly returns.

Authorities:
Monthly returns of the railways to the Interstate Commerce Commission

Prepared by
Bureau of Railway Economics
Washington, D. C.

The Net Condition of Eastern Railroads

December 6, 1913.

In order to bring to the attention of the Interstate Commerce Commission and the public generally the facts as to their real condition, the 35 railroad systems East of the Mississippi and North of the Ohio have filed with the Commission an exhibit such as had not hitherto been compiled.

It eliminates all intercorporate system ownership of capital obligations as well as receipts and payments as between members of a railway system, and reduces results to a net figure showing the actual conditions as they affect investors and the public, which must have railway facilities provided for its use.

These railroads own 53,670 miles of roadway, with a total of 107,933 miles of track. Their gross earnings from 1910 to 1913 increased $187,000,000, while operating expenses and taxes increased $201,000,000. Tax payments alone increased from $42,900,000 in 1910 to $54,490,000 in 1913. The net operating income actually decreased $16,311,000. Consequently, even had these companies made no increase in capital expenditures in the period, they would still have been worse off in 1910 by this amount of over $16,000,000.

But in the three years, the actual property investment—that is, the cost of railroad and equipment—increased by almost $660,000,000. With increased business to the extent of $187,000,000, there was a decline in net operating income of $16,311,000, notwithstanding this large increase of almost $660,000,000 in the investment in the property.

It required above $3.50 property investment for each dollar of increased gross earnings; and for each $1.87 of increased gross earnings, increased expenses and

taxes were $2.01, without any allowance for interest on the new money spent to supply facilities to earn the increased gross revenue.

In 1910 these companies showed net operating income equal to 6.28 per cent. on their property investment, but in 1913 this percentage had fallen to 5.36 per cent.

The total capital obligation of these 35 companies are $6,389,000,000, of which funded debt is $3,829,000,000, and the balance capital stock.

These companies earned in 1913, in gross, $1,424,000,000. Their net operating income after deducting expenses, taxes, rents, and hire of equipment was $336,754,000. Their net corporate income after payment of interest on funded debt and other obligatory charges in 1913 was $206,600,000. Out of this net income the companies declared dividends of 5.10 per cent. on the capital stock outstanding, amounting to $130,000,000. This sum was $19,000,000 less than the dividends paid in 1912, and $7,000,000 less than the dividends in 1910.

The design of the exhibit containing these figures was to emphasize statistically that the reason for the application is that in the last three years (since the last application was made to the Commission for an advance in freight rates), the operating expenses of these railroads have increased faster than their gross earnings, with the result that net operating income has not increased sufficiently to furnish any additional return on the additional investment of the past three years.

The Railroad Situation in the Middle West

December 7, 1913.

As part of the presentation by the railroads of the need for an increase in freight rates, the railroads of the Middle West, operating in what is known as Central Freight Association territory, have filed with the Interstate Commerce Commission elaborate statistical data covering the condition of those companies.

Figures covering 78.6 per cent. of the entire mileage in the territory show that these companies enjoyed in 1913 an increase in operating revenues of $76,000,000 over 1910; nevertheless, after paying operating expenses and taxes, they suffered a loss of $12,000,000 in operating income.

This result was due to an increase in the ratio of operating expenses and taxes to gross as between 1910 and 1913 from 72 per cent. to 78.2 per cent. This showing was made despite the fact that large sums of new capital were invested in the property.

Besides the loss in net revenues for the year ended June 30, 1913, as compared with 1910, the figures for these same roads for the three months of July, August and September, 1913, show a decrease in net operating earnings of $6,937,353, or approximately 20 per cent.

In addition to the tables covering figures for all the roads in this territory, special attention has been directed to the condition of a special group of roads which, as stated by Mr. F. A. Delano in his opening

statement the previous day, were more particularly representative of the "whole situation" in Central Freight Association territory.

This group embraces 28 roads, with 23,167 miles of road, or 51.5 per cent. of the entire mileage in the territory, and including such important lines as the Big Four System, Vandalia, Chicago and Eastern Illinois, Grand Trunk Western, Grand Rapids, Illinois Central, Chicago and Alton, Nickel Plate, and Wabash Railroads.

In 1913 roads in this group earned $63,000,000, more than in 1908, which is known as the panic year, and operating expenses and taxes were $62,000,000 more. Net operating revenues, after paying expenses and taxes, were only $811,000 more than in 1908.

The net corporate income of these properties was actually $8,000,000 less than in 1908, although during this five-year period $180,000,000 new capital was put into these properties.

In 1913 the roads in this group earned $36,000,000 more than in 1910; operating expenses and taxes were $45,000,000 more than in 1910, and the net, after operating expenses and taxes, decreased $9,500,000. The net corporate income decreased almost $17,000,000.

If in 1913 the railroads in this group had been able to operate at the same ratio as in 1910, their net operating revenue after paying taxes, would have been almost $18,000,000 greater than it was in 1913.

The increase in cost is largely in two

items, transportation and maintenance of equipment.

Mr. F. A. Delano, one of the receivers of the Wabash Railroad, in presenting the situation of the Middle Western railroads to the Interstate Commerce Commission, says:

> "It will be obvious that a 5 per cent. increase in rates will not be adequate to meet the demands of the territory. The rates in that territory, both freight and passenger, are the lowest rates prevailing in the United States, and the interests of the people of that rapidly growing and developing section of the country, to say nothing of the railroad companies, require, in the near future, a readjustment of the rates, both freight and passenger, to a basis which will enable that territory to have good railroads and the people to have efficient and adequate service, and to progress measurably with the other sections of the country."

How the Railroads Have Obtained Their Economies

December 8, 1913.

The railroads of the Eastern District participating in the application for a 5 per cent. increase in freight rates have filed with the Interstate Commerce Commission a series of statistical tables which give the details as to various operating conditions in the last decade incidental to handling and carrying freight.

The principal result herein enumerated is set forth in the fact that for 1912 these railroads were able to carry in each freight train an average load of 510 tons, while the average in 1903 had been but 391 tons.

This achievement was one of the results of the fact that the 49 railroads in the territory affected expended during the past ten years an average of $200,000,000 a year in enlarging the roadbed and equipment. The increase in the property investment account per mile is due to many things—larger and more expensive terminals and stations for both passenger and freight; elimination of curves, grades and crossings; heavier and improved bridges, rails, ties, signals, interlocking, etc., and generally a more substantial standard of roadbed to carry the heavier equipment.

The railroads also have built larger locomotives. The average locomotive in service in 1912 had grown so in size and power that it could haul a heavier load by more than one-third—33.8 per cent., to be strictly accurate—than the locomotive of 1903. This meant that two locomotives

in 1912 could almost do the work of three average locomotives a decade earlier. This is expressed technically in the statistical fact that tractive power of locomotives on these roads increased from 22,796 pounds in 1903 to 30,501 pounds in 1912.

As the engines increased in size, so did the freight cars. The average freight car in use in 1903 could carry a little less than 31 tons.

In ten years the capacity of freight cars increased to 39½ tons—a gain of more than 9½ tons. At present three freight cars can carry almost as much as four could have carried in 1903.

Every freight car with any load in it carried 19 tons of freight on an average in 1903. This had increased to almost 23 tons in 1912, or short of 20 per cent. That is, five loaded cars in 1912 were doing the business of six loaded cars in 1903.

* * * *

The average number of cars in each freight train—loaded cars, empty cars and cabooses—increased in this period from a train of 30.3 cars to one of 34 cars. While the number of loaded cars in each freight train was 20.7 in 1903, it was 22.4 in 1912.

The result was that these railroads in 1912 carried 15 tons of freight on an average on every freight car hauled—loaded or empty—when they had only carried 13 tons in 1903 an increase of two tons on each freight car moved in the decade.

How Average Rates Have Declined and Wages Gone Up

December 9, 1913.

The decrease which has taken place in the money received by the railroads for carrying each passenger a mile, as well as the decrease for carrying each ton of freight a mile in the decade of 1903-1912, is set forth in two statistical exhibits, which have been filed with the Interstate Commerce Commission by the 49 railways participating in the application for a rate increase of 5 per cent.

These railroads in 1903 received .653 of a cent, on the average, for each ton of freight carried one mile. If it were possible to conceive the hauling by rail around the world of this average ton of freight, the average railroad company's bill, at this average rate for doing it, would have been $163.25.

Average freight revenues had dropped in 1912 to .617 of a cent a mile ($0.00617). This means that the ton of freight would be hauled around the world for $154.25, or a decrease of $9 a ton in the decade for such a distance. This represents a loss of 5.8 per cent. in money received for carrying the same weight of freight. Even admitting that the decline in freight revenue per ton mile may be partly due to a change in the character of the traffic handled, the loss in revenue remains an actual fact.

Nearly three times as much money was received on the average for carrying a passenger a mile in 1903 as for carrying a ton of freight the same distance. These roads that year received 1.847 cents for carrying each passenger a mile. In dollar sign figures this reads $0.01847.

In the impossible case of giving a passenger a continuous ride around the world at the equator, he would have paid the rail-

roads for the trip, based on the average $461.75 in 1903. He could have had the ride around the world, at the 1912 average rate, for $451.50—a saving to him of $10.25, and an equal loss in money received by the railroads for doing the same business.

His average rate for each mile in 1912 would have been 1.806 cents, as compared with $0.01847 in 1903.

* * * *

WAGES

While these reductions were in progress aggregate wages and average rate of wages paid per man were steadily rising.

The aggregate amount of wages paid by the railways of the Eastern District to its employes in the year 1903 was 364 million dollars (excluding general officers). The amount paid in 1912 was 567 millions—an increase of 203 millions of dollars, or 56 per cent. Employes received in wages 57 million dollars more in 1912 than they did in 1910, or 11 per cent.

* The advanced wage movement which culminated in 1910 added $34,000,000 a year (based on the payrolls of that year) to the payrolls of the railroads in the Eastern District.

The award just announced by the arbitrators will give the conductors and train men alone of the roads affected in the Eastern District $6,000,000 increase wages annually. And the effect of the full crew laws has added $4,000,000 a year.

* Cf. Statement of Mr. Daniel Willard, Bulletin No. 1.

Testimony As To Conditions On Erie Railroad System

December 10, 1913.

The Erie Railroad System, through Mr. Charles P. Crawford, to-day presented to the Interstate Commerce Commission a statistical statement of its own condition, in relation to the application of the railroads for an advance in freight rates.

The following is a summary of Mr. Crawford's testimony:

"In 1913 the property investment of Erie Railroad System had increased $88,459,748 since 1903, or 24.26 per cent., while its net operating revenue increased only $1,701,404, or 9.36 per cent., and its net operating income decreased $799,205, or 4.76 per cent.

"During the same period its gross operating revenue increased $19,133,219, or 39.70 per cent., showing greatly increased service to the public. The Erie System in 1913 fell $799,205 short of receiving any additional return on its great increase in investment, although it rendered a greatly increased amount of transportation service to the public.

"The business handled by the System has greatly increased since 1903. The number of tons of revenue freight carried one mile has increased from 5600 millions in 1903 to 6669 millions in 1910, 7976 millions in 1913.

"During this period the average revenue per ton per mile was 6.13 mills in 1903, 6.15 in 1910, and 5.92 in 1913.

The revenue per ton per mile has decreased 3.74 per cent. since 1910.

"While the decrease in the average revenue per ton per mile since 1903 may have resulted in part from changes in the character of traffic handled and in its average movement, yet it is believed the reduction in the average revenue per ton per mile has resulted in large part from rate reductions.

"Notwithstanding these reductions in the average revenue per ton per mile, the total operating revenue has increased from $48,000,000 in 1903 to $59,000,000 in 1910, and $67,000,000 in 1913, making an increase of 39.70 per cent. for 1913 as compared with 1903, and of 13.96 per cent. as compared with 1910.

"Under normal conditions, with such a large increase in the business handled and in operating revenue, there should be a substantial decrease in the ratio of operating expenses to operating revenues; but this has not been the case, as operating expenses and taxes have increased at a rate largely in excess of the increase in operating revenues."

Changes In Economic Conditions Affecting Railway Earnings

December 10, 1913.

Mr. Charles A. Conant, economist and author of "The Principles of Money and Banking," was called by the railroads to testify before the Interstate Commerce Commission regarding changes in the purchasing power of money, and the world-wide demand for capital.

Mr. Conant said, in substance:

"The purchasing power of the dollar over the great mass of commodities has permanently fallen since the present schedule of passenger and freight rates was established.

"Average prices in 1912 were 48.9 per cent. higher than in 1897; 47.8 per cent. higher than in 1896; and 18.2 per cent. higher than in 1904. Analysis of the details of prices by classes of products shows that under the head of metals and implements, the index number advanced from 86.6 per cent. in 1897 to 126.1 per cent. in 1912; lumber and building materials, from 90.4 per cent. in 1897 to 148.2 per cent. in 1912, or an increase of more than 60 per cent.

"In 1880, the first year after the resumption of specie payments, prices were much higher than the average of 1890-1899. An almost uninterrupted decline occurred, however, until 1896, when the index number fell to 90.4, or more than 40 per cent. below the prices of 1880. With the resumption of business activity

in 1898, the index number begins to rise until it has attained 110.5 in 1900.

"There was then a slight recession, followed by a slow recovery, which carried the index number for 1904 to 113. Then began the rapid upward movement of the past eight years—interrupted by the depression of 1908—which finally advanced the index number for the year 1912 to 133.6. This is an increase of nearly eleven points over the low point of 1908, and of 40.2 points over the index number of 1898.

"One of the most remarkable evidences that the increase in the value of goods in terms of money in recent years has been broad and general in character is afforded by the statistics which are compiled annually by the Comptroller of the Currency in regard to the banking power of the United States."

After noting that the banking power of the country increased 111 per cent. in twelve years, Mr. Conant continued:

"The essential question is whether this great increase in banking power, by 111 per cent. in twelve years, reflects a corresponding increase in the annual production or in the accumulated wealth of the country. The population during this period increased only 25.3 per cent., so that the increase in banking power was more than four times as rapid as that in population. For the four years between 1908 and 1912 the increase in banking power was 27.8 per cent., while the increase in population was only 9.3 per cent."

In dealing with the effect upon railroad

freight earnings of the purchasing power of money, Mr. Conant said:

"Taking the receipts for freight alone per ton-mile and expressing them in mills, or tenths of a cent, it appears that this average of ton-mile receipts varied only within narrow limits during the whole of the sixteen years from 1896 to 1912. In 1896, the average receipts per ton-mile were 8.06 mills; in 1912, they were 7.43 mills. This represented a decline of 63 hundredths of a mill, or about 7 per cent.

"If the receipts per ton-mile in 1896 were 8.06 mills, and wholesale prices bore a ratio to the standard of 90.4 points, the purchasing power of the receipts per ton-mile was 8.92 mills. As the index number of prices advanced, however, even if receipts remained the same in terms of money, the purchasing power of the receipts inevitably fell in a striking ratio.

"After the revival of business activity in 1897, receipts per ton-mile declined only slightly, but the index number of wholesale prices increased rapidly. The result was that the purchasing power of the money received for freight fell from a ratio of 8.06 in 1898 down to 6.61 in 1905.

"Then began another decline, interrupted only by the depression of 1908, which finally carried the ratio of purchasing power of freight receipts in 1912 down to 5.56. When this purchasing power of the receipts per ton-mile is compared with the corresponding figure of 1896, we find a decline of 3.36 mills, or 37.6 per cent.

"I conclude, therefore, simply as a question of mathematics, and without undertaking to enter into the intricacies of railway accounting or the special demands which have been made upon the railways, that the purchasing power of the moneys which are now paid for freight is approximately 37 per cent. less in the market for commodities than it was in 1896."

* * * *

The Demand for Capital

On the subject of the world-wide demand for capital, Mr. Conant said:

"In recent years new demands have converged upon the supply of available capital in an unusual degree from the conversion of industrial enterprises into stock companies, the absorption and merger of old companies with new, the great extension of the system of local traction lines, the demands of undeveloped countries for railways and industrial equipment, and the remarkable expansion in the calls of governments upon the financial markets for the means of increasing armaments and making public improvements.

"This great demand for capital which converges on the principal money markets of the world has effects similar to those produced by great demand upon other commodities—it raises its price. As the price of capital is the rental charged for its use, or the interest rate, this rate has risen in a marked degree in recent years. The influence of this condition may be summarized as follows:

"1. New securities can only be sold at lower prices than formerly or must pay higher interest rates on their par value.

"2. The prices of outstanding securities fall, making them unsalable in the hands of their holders except at a loss and reducing the assets and the surplus funds of savings banks, other banking institutions, and insurance companies.

"3. The seekers of new capital by means of security issues must pay a larger amount in money for its use, and in view of the rise in general prices, must pay more for their materials, thus making necessary a higher rate of earnings than formerly in order to meet fixed charges.

"4. Under the conditions of competition for capital thus established, industries of high earning power are able to outbid those of lower earning power for the supply of free capital in the market.

"5. Incident to the decline in the purchasing power of money, there is a tendency on the part of investors to shift their investments to those paying higher returns than formerly, in order to meet the increased cost of living, even at the risk of some slight decrease in security.

"6. In so far as the decline in the purchasing power of money is recognized in the financial world as a factor likely to be continuously felt, there will be a tendency on the part of investors to refrain from purchasing securities for long terms, paying a fixed income in money.

"The railways have not adopted their charges, as have other industries, to the change in the purchasing power of money. They have continued to sell their services for an amount which has remained comparatively fixed in money, but has declined greatly in purchasing power.

"Such additional capital as they have sought by the issue and sale of securities has been obtained on higher terms than in former years, while its purchasing power, in materials and wages, has been much less than in former years. The railways have been in the peculiar position of seeing prices rising all around them, while they have been unable to make advances

proportionate to their changed relations to other industries.

"If the value of the money received by the railways for their services has so seriously declined in purchasing power as to deprive them of the means of meeting their legitimate charges and obtaining new capital at its present rental price, they are not on an equality with other industries, they are receiving a much less proportionate share of the proceeds of the economic output of the country than that which they formerly received, and they are less capable of contributing their share to equipping this country for unfettered competition with other countries in the field of production and international commerce."

Increases in Freight Rates World-Wide

December 14, 1913

At the hearing before the Interstate Commerce Commission on December 10, Mr. Charles A. Conant, testifying in reference to the proposed increase in freight rates, stated that adjustments of rates had been made in many leading countries on account of the increased cost of operation.

Mr. Conant cited, as authoritative on this point, an article by Mr. C. Colson, the eminent French economist, published in the "Revue Politique et Parlementaire" for August 10, 1913.

Mr. Colson is a Conseiller d'État, was formerly Director of Railways in the French University of Public Works, and is Professor of Political Economy in the École Nationale des Ponts et Chaussées of Paris, etc.

A copy of a translation (made by Mr. J. H. Parmelee, Statistician of the Bureau of Railway Economics) of that article has been filed by the railroads as an exhibit in their case, and is reprinted herewith.

AMONG the economic phenomena which have characterized the last few years few have been more marked than the general increase in prices. This increase at first influences the railway situation only by the increase which it brought about in railway expenses. It is now commencing to bring about rate increases on a fairly large number of railway systems. In view of the rapid and continuous decline in transportation rates, which has been one of the principal factors of economic progress for a century, this fact certainly merits attention.

When price variations are spoken of by the public at large, comment nearly always centers around changes brought about through retail sales. Economists who endeavor to measure these variations with exactness generally take for the purpose the average prices of the principal agricultural or industrial products as registered upon the exchanges where they are sold in bulk. These averages they call *index numbers.* In most cases they are interested only in transactions involving material goods, which constitute, however, perhaps only 50 per cent. of all current transactions. The prices taken into account by them do not as a matter of fact cover either wages or rents or transportation rates. To get an exact idea of what a given sum of money represents at different periods, it would be necessary to take account of both wholesale and retail prices of a number of products, such as services rendered by different categories of labor, by landlords who lease their property, by transportation agencies, etc. This would be a considerable task and one which we believe has never been attempted as a whole.

Yet studies made with respect to each price category taken by itself, according as they measure the general movement, permit at least an appreciation of its sig-

nificance and importance. To be sure, this movement is not manifested to the same degree in different kinds of transactions, or in different countries whose markets are separated by more or less obstructive customs barriers. A generally characteristic gain is, however, maintained.

Oscillations in Prices

Disregarding oscillations resulting from alternating periods of prosperity and depression, there was till recently a general and rapid decline in the prices of industrial products, resulting from technical progress. Agricultural products, on the other hand, increased constantly in price in Western Europe until about 1875-1880, as a result of increasing density of population within a limited area. But about this time the tremendous decline in transportation rates that resulted from extensions of railway and steamship lines permitted older settled regions to draw a portion of their necessary subsistence from scarcely settled territory in the New World; the rapid fall in agricultural prices which took place toward the end of the nineteenth century resulted in an agricultural crisis. Both the increase of population in the New World and in the Old, and the increase in consumption due to increased wages, have brought about a new movement of rising prices during the past fifteen years.

If one seeks to measure the general movement of wholesale prices by that of the customs values of French imports and exports, an increase of about 20 per cent. from 1847 (the date of the first valuation) to 1860-1865 will be observed, followed by a gradual decrease of about 40 per cent. from the latter period down to 1896-1897. Then the movement again

reversed itself and the increase which has resulted is actually about 20 per cent. over the prices of fifteen years ago. It must not be forgotten that the present moment probably marks the culminating point of a period of business expansion which will undoubtedly be followed by a certain temporary reaction.

Retail prices have not followed exactly the trend we have just described, because the gap between them and wholesale prices naturally goes on increasing in the degree to which wages and business rentals in congested centers continue to rise. Disregarding products of exceptional quality, the prices of which increase continuously with the increased number of fairly rich families who use them, the following variations in current prices may be noted:

Furniture and Food

The cost of furniture and of clothing declined constantly until about 1896-1897, but has risen a little since that time. As to articles of food, the increase was very marked up to 1880, while the period since 1880 is divided into two equal parts, the first of which is characterized by a notable decrease, and the second by an increase which, contrary to general belief, has not yet brought prices up to the level reached some thirty years ago.

Wages, on the other hand, have constantly increased. The increase, rather slow up to 1850, was extremely rapid, both in agriculture and in industry, between that date and the agricultural crisis. It slacked considerably in the country districts, and to a slight extent in the industrial centers, thirty years ago. During the past fifteen years, however, it has resumed an accelerated progress, first in the towns, then in the rural districts. One may sum up the change in living condi-

tions of laborers during two intervals, thirty years apart, by following a study of the French Statistical Office prepared with the care and acumen characteristic of all the labors of its director, M. Lucien March. The results of this study are shown by the following relative figures (calculated by assuming the corresponding figures of the year 1900 as equivalent to 100):

	1850	1880	1910
Wages	51	82	110
Cost of living (uniform throughout)	85.5	110	104
Purchasing power of wages	59.5	74.5	106

The underlying statistics for this table were drawn especially from the cities, and notably from Paris; but the results may well be extended to cover the country, at least for the three dates considered. It was only for a portion of the years between 1880 and 1910 that the agricultural crisis seems to have stood in the way of actual parallelism of movement in city and country.

Effect of Labor Organization

It should be remarked in passing that the advance in wages produced solely by the play of economic forces, notably technical progress and the accumulation of capital, was more rapid from 1850 to 1880 than from 1880 to 1910. Statistics confirm what a study of the mechanism of prices teaches, contrary to almost universal opinion, that the organized labor movement (infinitely more powerful in the second of the thirty-year periods considered above) is powerless to accelerate the advance in wages. We even believe that in France it had the reverse effect during the last few years, by disseminating ideas among the working classes that

have considerably reduced the labor output. The result is that the net cost to the employer of a given piece of work has increased in recent years to a much greater extent than is indicated by statistics of increases in hourly or daily wages. This net cost would no doubt be less, the cost of living would also be less, the gain to the workman would be considerably increased, and his purchasing power would be very much greater, if the slackening of endeavor which has so much diminished the productivity of his work were less accentuated. As a matter of fact, in view of the attitude of labor, the peculiar mental influence of the labor unions is felt principally with regard to the productivity of labor, while wages depending on supply and demand escape their action whenever advances are sought which the state of the market at the moment does not justify.

In the cities, rents also have notably increased. It is true that the cost of local transportation has considerably decreased at the same time that the cost of long-distance travel has been decreasing, and also, except very recently, the cost of freight transportation.

Statistics Have World Application

The foregoing conclusions are based upon French statistics, but with very slight differences as to dates and as to the sweep of the movement, the general trend is the same for all Europe, and even to-day for America. It can be summed up by saying that the level of prices, including wages, presents a marked rise during the past century. Moreover, this general movement, after having undergone a considerable slackening in the last quarter of the nineteenth century, and especially from 1882 to 1897, has been notably em-

phasized since then. Especially true of this latter period is the fact that the increase has become almost universal in character. Technical progress may continue to reduce the net cost of many industrial and agricultural products, but the margin is no longer large enough to neutralize either the increased cost and efficiency of manual labor or the increased demand due to the improved condition of the working classes.

We shall not inquire here into the causes of this general rise in prices. It may be remarked, however, that if the increase or decrease in the relative value of products or of different services results necessarily from causes which are peculiar to each, a movement which bears at the same time on practically *all prices* can hardly be explained, except as the result of monetary causes. The more so that these causes at the present time are obvious. The increase in production of gold, added to the development of methods of payment without the use of money (notes, checks, book transfers, etc.), appears for a long time to have proceeded faster than that of the need for money. Although very much increased by the working of the Siberian deposits, the production of gold did not average 200 millions of francs annually from 1840 to 1850. Carried by the exploitation of California and Australia to an annual average of 673 millions between 1851 and 1870, the average fell back to 572 millions between 1871 and 1890, but since that time the Transvaal mines have increased it to such an extent that it reached 1089 millions between 1891 and 1900, 1959 millions between 1901 and 1910, and finally amounted to 2423 millions for the year 1911. An equal increase in instruments of exchange must necessarily have resulted in the diminution of the purchasing power of

money, that is, an increase of general prices.

If the production of gold continues to increase, there is no reason to doubt that our descendants will assist at a phenomenon analagous to that general increase during the sixteenth century which was the consequence of the enormous influx of precious metals resulting from the discovery of America, and which raised prices threefold, according to some writers, and fivefold according to others. The existence at the present time of a larger stock of gold than four centuries ago, the colossal development of business transactions, the demonetization of silver and the diffusion of gold in the Far East, serve actually to reduce the importance of the movement to-day, and without doubt will continue to do so in the near future. Its effects are none the less already felt and may be even more strongly felt in the future.

Railway Rates Held in Check

But there exists one industry, the railway industry, whose selling prices do not by the sole interplay of supply and demand follow the general rising movement under which it pays increased prices for all the things which it buys, notably the wages of its employes. Railway service is a public service which practically can be organized only by the State, or by grantees selected for the purpose. Railway operation has the character of a monopoly, and when a country endeavors to establish competition the only result is to divide the benefits of the monopoly between several enterprises. As a result, transportation rates cannot be left to free action; they must result from tariffs established by the Government or under its control. Even in Anglo-Saxon countries the State, which has proceeded upon a wholly dif-

ferent conception, does not now allow the railways the same freedom of action accorded to them at the beginning, a freedom which has resulted in a control always arbitrary in character, although not, as with us, contractually defined.

Under these conditions, an increase in rates, even when it is imposed by economic circumstances, always has the appearance of a unilateral and forcible act. This act is the more ill received by public opinion the more it has become accustomed to seeing tariffs go almost constantly down in a movement which technical progress and the elasticity of traffic have rendered nearly universal. States have only rarely authorized increased tariffs on railways under their control, and when they have substituted government operation for operation under concession they have generally sought to render the new régime popular by rate reductions. Both in England, where the railways desired to compensate themselves, by means of lessening former reductions which had become obsolete at certain points, for the new reductions imposed upon them at other points to diminish rate inequalities, and in the United States, where the cordial relations eventually established between different railway systems permitted the suppression of abnormal reductions brought about by previous competition over certain routes, laws have intervened to give quasi-judicial authorities power to oppose such increases. The freedom of action of the railway companies and the mobility of their tariffs, which has so powerfully contributed to the economic development of the American continent by facilitating rapid railway growth, are no longer tolerated in the United States, since the need for new railways is less vividly felt than the need of equality in the treatment accorded competing producers. Increases in rates, always more

rare than decreases, have for a long time been extremely exceptional almost everywhere, and have become rare even in America during later years.

Effect of 1907 Panic

But rapid increases in operating and construction expenses have come seriously to modify the situation in a number of countries. It was at the very crisis which followed the height of prosperity in 1906 and 1907 that the effect of this increase was most severely felt. As we have frequently stated in these pages, the movement of expenses always follows that of receipts, but at a slower gait; traffic progresses by spurts, the most recent of which have been somewhat in advance of the date set for them under the periodical alternation at approximately ten-year intervals of industrial prosperity and depression. At the beginning of these spurts the railroads meet the situation as best they can with the facilities at hand, and it is only when they have ascertained where, for what classes of traffic, and under what conditions the needs exist that they undertake the necessary and costly improvements of their operating facilities. Then, when the slackening of traffic renders it more difficult to provide for the new expenses, they endeavor to retrench. This is what occurred in all countries when the crisis of 1907-1908 seriously affected the financial status of most of the railway systems. But the results of the measures adopted to realize economies were nullified, when business again became active after a short period of slackening, by the general increase in prices. This increase is no doubt in part temporary with regard to coal and metals, but will probably be permanent with regard to wages; and the expenses brought about

by the increase have been aggravated by the necessity of offsetting reduction in labor output by means of added facilities. It was under these conditions that the idea of raising rates gained ground and has been applied in a number of countries.

It has not been necessary to refer to Germany, where, as we have frequently shown in these pages, abundance of traffic, added to exceptionally advantageous conditions resulting from the configuration of the country and from regulations very favorable to the railways, assured excellent results even with a relatively expensive system of operation. After the enormous falling off in net revenue in 1908 a serious effort was made to reduce expenses; since then the recovery of traffic has been sufficiently strong to secure for the capital invested a greater return in 1911 than the maximum realized in 1906, although capital had grown three and one-half billions in the interval. Meanwhile, in the smaller German States where the railways are less prosperous than in Prussia, the question of raising rates has been agitated at different times. Württemburg, soon after the unification of tariffs throughout the empire in 1907, increased the price of fourth-class tickets in 1909 from 2.5 centimes to 2.875 centimes per kilometer. The Prussian Government withdrew the export tariffs on coal, but this was apparently less to augment receipts from coal traffic than to reserve that commodity for national industry. With regard to internal traffic, the Government contented itself with forcing the public to pay for the routing of freight shipments over longer but less congested lines. As to the stamp tax on bills of lading and passenger tickets which, established by the empire, was levied for passengers at a progressively higher rate, according to class of accommodation, this caused much disappointment, since pas-

sengers simply shifted to the lower classes, and the measure has had the character of a general tax rather than an increase in rates, so that the railway administration of the several German States have suffered rather than profited by it.

Conditions in England

In England, as we have shown (May number, 1913), successive interventions by the Government at the time of the threatened strikes of 1907, and afterwards at the time of the strike of 1911, caused the companies to make concessions to their employes in consideration of the promise that legal facilities would be afforded them for two classes of relief measures: First, the consummation of agreements or consolidations that would permit reductions in expenses by suppressing existing competition on many lines, not as to prices (in this respect there has been an understanding for a long time among the railways), but as to the facilities offered to the public. Second, increases in freight rates. A bill presented in 1912 which covered these two points, and at the same time imposed various new obligations upon the railway companies, did not pass. The Government, called upon to fulfil its part of the agreement, at last carried a bill through both chambers which consisted merely of a brief amendment to the Act of 1894 by virtue of which the Railway and Canal Commission was empowered to oppose all unjustifiable increases of freight rates. This amendment, which took effect in March, 1913, declared that an increase would be deemed justifiable when it should be established that its object was to meet the additional expense of handling goods resulting from increases in wages and improvements in working conditions since August 19, 1911 (date of the strike).

Already, in January, 1912, the railways had put into effect certain increases in passenger rates, to which the restrictive measures of 1894 did not apply; these very moderate increases affected only certain exceptional passenger tariffs. Utilizing the new privilege granted them in regard to freight rates, they put into effect, on July 1, 1913, increases equivalent to a general surcharge of 4 per cent. on all traffic. It is natural that the customers of an industry thus suffer the consequences of its increased net cost; this is only what occurs in all unregulated industries, whether the increase results from the intervention of public authority, so frequent nowadays in the matter of labor, or whether it proceeds from natural price variations. So far as the railways are concerned the British Government has kept its promise by refraining from interposing legal obstacles which would have rendered them victims of the pressure brought upon them on behalf of their employes. As to the agreements between different railways for the purpose of reducing expenses, the indefiniteness of the law has allowed them in most cases to consummate these agreements without the necessity of new legislation.

Italy Raises Railroad Rates

In Italy, as in England, betterments of the conditions of the laboring force have necessitated increases in rates. The old leasing system, which was ended in 1905, did not sufficiently permit the railways to provide the means for necessary increases in equipment, and thus made it impossible for them to respond to traffic needs. Direct operation by the Government, under the capable and energetic management of M. Bianchi and a fairly independent administration, has notably improved the service. But expenses have

gone up considerably, for the most part as the result of legislation enacted by Parliament under pressure from railway employes, providing for increased rates of pay. The latest of such laws, enacted April 13, 1911, provided that part of the new charges should be taken care of by means of an increase in the price of term tickets and of special tickets issued at unusually low rates. These increases have produced six millions, perhaps a little over 3 per cent. of total passenger receipts. At the same time there has been authorized an increase in accessory charges on freight amounting in the aggregate to three millions, perhaps a little over 1 per cent. of the receipts from ordinary freight. This increase has for its object the creation of a reserve of 4000 cars for the transportation of agricultural products.

In Switzerland, a law passed June 23, 1910, improved the conditions of railway labor to a very marked degree; its application will add about fourteen millions to a wage aggregate amounting to sixty millions in 1910. Inasmuch as the wage increases provided for are often automatic, it is fair to ask whether the service will be improved along with the condition of the employes. On the other hand, the government railway administration has put into effect increases running from 9 to 12½ per cent. on certain forms of season tickets very much used in that country. Other increases have been proposed, applying to round-trip tickets, but these the Federal Government has not ventured to adopt.

Measures Taken in Belgium

In Belgium the State has, for several years, been endeavoring to offset the increase in expenses, brought about through increases in railway wages, by increases in rates. The stamp tax (droit d'enregis-

trement), which in France is but ten centimes, has been raised from twenty to fifty centimes. Measures have been taken to prevent such combining of shipments as permit the economical transportation of small consignments. Finally, after a long series of struggles and one first ineffectual attempt, increases of fifty centimes per ton have been imposed upon short-haul shipments of all coals.

In Denmark the net revenue of the state system declined from 6300 francs per kilometer in 1905-1906 to less than 2100 francs in 1909-1910, the gross revenue being more than 31,000 francs per kilometer. The public authorities took steps toward putting into effect, on the first of December, 1911, new tariffs which would increase total revenues about 9 per cent.

In Russia ordinary freight rates on a large number of manufactured products were considerably raised in 1910. Some increases were also made with respect to passenger rates. But on account of the poverty of the population, these latter increases brought about a reduction of passenger traffic and a shifting from higher to lower classes which has forced a partial abandonment of the scheme.

It is especially in Austria and in Hungary that a considerable sustained effort has been made. In Austria the state system, considerably enlarged by the policy of purchase of railway lines which has led to the gradual disappearance of all the private systems, with the sole exception of the Südbahn, has been far from earning the interest on its capital. For a long time the Government has been seeking to increase revenues by means of rate increases. Some years ago station charges had been considerably increased. A general reform was instituted in 1910, applying both to freight and passenger tariffs, by means of which revenues were

increased ten millions the first year and thirty-seven millions in later years. But the results were seriously disappointing, and, in 1911 and 1912, new and important increases were effected, bearing partly upon certain special classes of goods (cement, lumber, alcohol, petroleum, coal, sugar) and partly on merchandise of all classes in carload lots.

Hungary Makes General Rate Increase

In Hungary still more radical measures were adopted. In 1909 the net revenue of the state system was forty-five millions less than the capital charges. During 1910 and 1911 rates on a majority of commodities were sensibly increased. The results, though satisfactory, remain still insufficient, and on March 1, 1912, normal fast freight rates were uniformly raised 7 per cent., exceptional fast freight rates 5 per cent., and all ordinary freight rates also 5 per cent. Finally, the celebrated zone tariffs for passengers, which had formerly been extolled as a great step forward, were completely abandoned.

This zone system, established in 1889, was destined in part to develop local passenger traffic and in part to bring the capital of Budapest and the farthest parts of the kingdom into closer relations. At the beginning there were two zones for local passenger traffic, and twelve zones for journeys of from 25 to 225 kilometers (each carrying a uniform rate for all the points within a fairly wide area, the rates increasing at successive steps either of 15 or 25 kilometers). Finally, there was a single zone, with a uniform fare, for all journeys over 225 kilometers, even up to 800 kilometers. However, there was a necessary break in all journeys by way of Budapest. This tariff produced a species of traffic, not then existent, over

very short and very long distances. From 1888 to 1894 the state railways and the Austro-Hungarian Company's lines purchased by the State in 1891 increased their traffic in the following proportions:

	Per cent. of increase in	
	Number of passengers	Passenger receipts
Local zones	650	232
Zones 2 to 12...	40	10
Zones 13 to 15..	246	186

But when the long-distance travel, hardly existent before, had developed so seriously as this, it did not take long to ascertain that the receipts from such travel did not cover the corresponding expenses. In 1896 and 1903 the local tariff was altered and two new zones created, one of 75 and one of 100 kilometers, so as to establish a complete uniformity of rates only beyond 400 kilometers. Experience shows that these increases have had no effect on the growth of traffic.

Under these conditions passenger traffic barely made expenses, but did not contribute, so to speak, to net revenue. On the first of July, 1912, the zone system of tariffs was abolished. Rates are now (with a few exceptions) increased at five-kilometer intervals for trips under thirty kilometers, and at ten-kilometer intervals thereafter, the per-kilometer rate rapidly decreasing above 250 kilometers. The increased revenues resulting from this new classification amount to about sixteen million francs, or about 18 per cent. of former passenger receipts.

Railroad Policy in France

It is clear that the once generally accepted idea, that railway rates must always continue to decline, is contrary to the facts. In France, public opinion still

refuses to admit that rates can never be increased. However, the operating results which we analyze each year in the May number of this Review lead us to fear that, as in so many other countries, we shall be obliged to apply higher rates some day. From 1906 to 1912 the revenues of the railways *d'intérêt général* increased in round numbers about 350 millions, while operating expenses increased 400 millions, and the capital invested had increased about two billions. Of this increase in expenses, the follies that have accompanied the purchase by the State of the Western Railway are perhaps responsible for fifty millions, adding that much to the normal increase in expenses which the government-operated systems must suffer, as well as the private systems. Even after deducting these fifty millions, it is clear that the increase in expenses entirely absorbed the total increase of revenue. The operating ratio in 1906 was about 52 per cent. The length of the new and slightly productive lines put into operation in the interval, upon which this ratio is necessarily higher than on the older lines of dense traffic, is hardly more than 1000 kilometers. On the other hand, the additional traffic of the older lines would not, by a wide margin, have brought an increase in expenses proportionate to that of revenues, had not the net cost of transportation grown. On the whole, an increase in expenses equivalent to half the increase in revenues would have been the expected thing, had not the conditions of operation been seriously changed.

Among the changes of this period are those which represent real improvements, both as to the speed and the number of trains, improved car accommodations, and so forth. But the expenditures undertaken by the railway managements on this score have not greatly exceeded the economies

brought about through technical progress; the use of more powerful locomotives, permitting an increase in average train load, the development of classifications based upon weight, etc. The enormous gap between the results actually attained and those reasonably expected from the development of traffic is due chiefly to the general increase of prices and especially of wages.

But the intervention of public authority has considerably contributed to the increase. We have often spoken of the special legislation which assures railway employes better pensions even than those granted to state employes themselves, and incomparably better than those provided under ordinary legislation for workmen in general, without even that contribution from the budget which is granted to other workers. This special act increased expenses of operation from twenty-five to thirty millions a year, which would have been infinitely better employed in the amelioration of wages—to say nothing of eight millions carried in 1912 to capital account on behalf of employes pensioned during that year, nor of its retroactive provisions, nor of the slowly decreasing amounts it will add to the expenses of future years. The labor regulations imposed upon the railways have also added new expenditures over and above those brought about by such increases in force as have been necessitated by the general movement tending toward greater leisure for laborers.

How French Expenses Increased

The law of 1905, regarding the liability of carriers, has further added to railway expenses, by means of payments for damage, to the extent of fifteen millions a year. While nullifying the contractual clause which combined the privilege of

lower rates with a lessening of the carriers' liability, the law has very much reduced the number of cases in which the Court of Cassation can exert a control over the decisions of judges of fact of the lower courts. However, it must be recognized that these judges, when elected by patrons of a railway, do not always grant it all the necessary guarantees. Doubtless, in the large cities, the commercial tribunals exercise their authority with entire impartiality; but their independence is not the same in the less important centers. The more closely they are in contact with the merchants who elected them, the more they incline to side in their favor against enterprises that are foreign to the region. As to this, statistics regarding the legal suits of one of our great railways in 1910 and 1911 are singularly instructive. It should be noted that all these suits are prepared and defended by the same legal claim department, which examines all cases in the same light and goes to law only when it believes that there are good chances of a victory. Yet the proportion of legal cases lost by it before commercial tribunals is as follows:

	Per cent.
In Paris	32.5
In other cities of 50,000 population and over	46.6
In cities from 10,000 to 50,000 population	60.9
In cities of less than 10,000 population	80.

When the law of 1905 had overthrown one of the conditions made by the railway systems in return for the voluntary rate reductions introduced by them, the Government recognized that it could not insist upon these reductions without some compensatory arrangement. The Minister of Public Works took the almost unheard-

of step of promulgating increases in certain rates that were extremely low and were due for revision when the effects of the new legislation should become known. But when the time came the administration directed its whole weight of authority against the railways, to obtain their renunciation of certain surcharges which it was impracticable to refuse to them if they should insist on their rights. The railways gave in upon the promise that a slight compensation would be granted them through the revision of certain tariff regulations much more burdensome to them than really beneficial to the public. Then, as always, when it was proposed to promulgate certain rules facilitating railway service, the administration backed down in the face of demands formulated not so much by large shippers, seriously interested in the question, as by small groups who receive their instructions from agencies on the lookout for opportunities to file claims. As a final result, the railways obtained nothing in exchange for their consent to the maintenance of special tariffs, even in cases where the evidence itself showed that the provisions reducing the liability of carriers had been among the determining conditions underlying the reductions voluntarily agreed to by them.

Effect of Rising Interest Rate

Although the new operating expenses absorbed, and more than absorbed, the increases in revenues, the amount of capital grew and the corresponding charges grew still faster. The general increase in the rate of interest has continued simultaneously with the increase in prices for fifteen years past. Of late it is especially with regard to old family investments that this increase has been manifested; the

cost of living has forced a search for more productive investments; furthermore, in the face of financial and other threats that are directed from all sides upon accumulated wealth, the difference in safety between securities once regarded as absolutely sound and other investments no longer seem important. Fifteen years ago the rate of interest (including funding costs) at which the railways borrowed hardly exceeded 3.25 per cent.; to-day they can no longer issue securities without paying about 4 per cent. Retirement of securities becomes more difficult in the measure by which the end of the period of concession approaches; the annual amortization charge (l'annuité des emprunts) has increased by 0.50 to 0.75 per cent. in fifteen years, and amounts to 75-115 centimes to-day, according to the length of time yet remaining to the concession of each system, and the charge will grow very rapidly unless measures are taken to render possible the continuation of betterments indispensable to the good of the service.

Whether the increase in capital charges and expenses of operation bears directly upon the State in regard to its own system and the expenditures assumed by it, through the construction of new concessionary lines, and whether it directly affects the railways with which the State is closely associated through guarantees of interest and the division of profits, it reacts no less gravely upon the state budget. For other reasons as well the budget is affected by the general increase in prices and wages, being drawn upon especially for the improvement of the working conditions of all public employes —not to give satisfaction to labor associations or unions whom it would be easy to bring to their senses, but because the recruiting of civil or military employes becomes more and more difficult, and will

become impossible if they are not properly compensated. The new military burdens which have been imposed upon us and the social burdens sometimes imprudently assumed, added to those which have resulted from the natural movement of prices, forced the State to secure new resources for immense sums never required before, not even after the catastrophe of 1871. At the very moment when it becomes necessary to search on all sides for new taxes it is no longer possible to discard *a priori* any idea of an increase in transportation rates.

The Real Problem in Freight Charges

Without doubt, this increase will bear grievously upon agriculture, commerce and industry. But under whatever form it may arrive, the new burdens imposed upon national production will fetter that production. To burden the transportation industry, or to tax its transactions, or to attenuate its capital, all tend to diminish the productive power of a country; the problem is to so distribute the load as to render no one part of it crushing. A certain increase in railway rates must nevertheless follow upon a general increase in prices, such as was described at the beginning of this article. Soon, perhaps, the State will no longer be able, in fairness, either to refuse the increase to the railways, in whose prosperity it is directly interested as a partner, or to continue to operate its own system at a continuously increasing loss. Perhaps, also, it would be wise to use, from now on, additional transportation charges that are relatively low and well selected as part of the resources of which there is need, in order to cover at least the interest on the capital expended to develop all sorts of means of communication.

The memory of the enormous part that has been played by the considerable decrease in transportation rates in modern progress must not lead us to exaggerate the inconvenience of a slight increase. The experience of actual increases abroad, as well as increases of transportation taxes in France some time ago, show that charges of this kind are not especially prohibitive, provided they be moderate and well selected; and even if they were to bear heavily upon passengers traveling on passes or special tickets (cartes de circulation), yet they constitute a valuable means of moral uplift.

What is of significance to the public welfare is not that a special form of service like the railway service is left out of the general movement of increased prices and augmented public charges, but that these charges be not increased without absolute necessity. The policy of reducing transportation rates is an excellent one, but to carry it out it is necessary to avoid increasing beyond measure the charge upon the carriers, the expenses of operations of doubtful utility or of no utility at all, and even, if possible, the total budget. On the other hand, when it becomes absolutely necessary to increase the levy made by the public power upon national production, the users of means of communication of all kinds should justly and inevitably contribute their share, at least in the proportion by which special legislation and the general increase in prices have increased the net cost of the services rendered to them.

This is what many countries have already recognized. It looks as if France also will soon have to recognize it.

Methods Observed in Advance of Freight Rates in Trunk Line Territory

December 16, 1913.

The railroads have published complete tariffs covering the proposed advance in freight rates. These publications involved a reprinting of all the tariffs on many railroads. In order that the exact application of the proposed increase may be better understood, the railroads have filed with the Interstate Commerce Commission a supplementary statement, prepared by Mr. C. C. McCain, chairman of the Trunk Line Association, describing in general terms the methods observed in advancing "Trunk Line" rates.

The controlling principle was to bring about a uniform advance of 5 per cent. on all class and commodity traffic via the various standard and differential routes: (1) from all eastern points to Trunk Line western termini and points beyond, domestic and import; (2) from western termini of the Trunk Lines to all eastern points, domestic and export, and (3) between all eastern interior points.

The detailed instructions formulated for this purpose, and which were employed by all roads, were as follows:

In computing and publishing all revised class and commodity rates in cents per 100 pounds, decimals of tenths to be employed.

In figuring advanced per ton rates, fractions of 1 cent per ton to be disposed of by dropping 49 hundredths of 1 cent or less per ton and increasing 50 hundredths or more per ton to 1 cent.

The minimum advance in the per ton rates to be 5 cents per ton and ¼ cent for rates in cents per 100 pounds expressed in decimals.

In computing through westbound rates, the New York-Chicago rate will first be advanced 5 per cent., and other Western points taking a percentage of the New York-Chicago rate, will take the established percentage of the new advanced Chicago rate, with the understanding that port differentials heretofore established and recognized will be continued.

In computing other rates not based on a percentage of the New York-Chicago rate, *recognized* differentials above or below advanced basing rates will be maintained.

The new rates, generally, were constructed in accordance with the foregoing; there were, however, certain exceptions to the strict application of the 5 per cent. increase which were regarded as necessary in order that the long-established competitive rate relations as between the principal shipping points and via various routes should remain substantially as before. Typical instances of these exceptions are given, as follows:

Under existing methods governing the west-bound rates from the seaboard, certain differentials have applied as between the Atlantic ports, known as port differentials, under which the rates from Philadelphia and Baltimore and points taking the same rates to western points have been stated amounts lower than the rates currently in effect from New York. Instead of computing the advanced rates upon the existing rates from Philadelphia and Baltimore, the new rates have been obtained by observing the existing differentials under the new rates established from New York, and while this process results in some variation from an actual 5 per cent. advance, the average advance will not materially exceed 5 per cent. Under the new basis, the rates from Philadelphia and Baltimore and points taking the same

rates will bear the same relation to the rates from New York as now prevailing.

From New York, Boston, Philadelphia and Baltimore, rates are published by various differential routes, such as rail-and-lake, ocean-and-rail, and canal-and-lake, as the case may be, the rates via these routes being specified amounts under those of the standard all-rail routes. When computing the new rates, the differential relation of these several routes has been maintained as heretofore, the rates of the standard routes having been first advanced 5 per cent. and those of the differential routes then obtained by deducting therefrom the established differentials. This method operates to produce slight variations from the exact advance of 5 per cent. via such routes.

For many years the rates from eastern seaboard and interior points to points in Central Freight Association territory have been constructed under what is known as the westbound percentage scale, by which the rates to such points have been determined under assigned percentages of the current rates New York to Chicago; for example, the percentages of several points are as follows: Peoria, 110 per cent.; St. Louis, 117 per cent.; Cincinnati, 87 per cent.; Indianapolis, 93 per cent.; Detroit, 78 per cent., and Grand Rapids, 96 per cent. of the rates New York to Chicago. When computing the new rates, this percentage method was observed, the result being less variation in the relation of rates as between western points than under the method of applying the 5 per cent. increase to the former

rates to such points, and a close approximation to the advance of 5 per cent.

The former rates from eastern interior points, such as Albany, Syracuse, Binghamton, etc., have similarly been made under a fixed percentage relation to those from seaboard points, and in order to continue this relation, the same method has been observed in computing the advanced rates from such origin points. The observance of this plan in connection with the new rates has resulted in slight variations from an actual 5 per cent. advance.

It was regarded as desirable to prescribe a minimum advance per 100 pounds or per ton. The minimum prescribed, as shown above, was one-quarter cent per 100 pounds, or 5 cents per ton. Where existing rates were of small amount, the application of this minimum has operated to increase such rates more than 5 per cent.; for example, the rate of 20 cents per ton, to which a minimum of 5 cents is added, produces 25 cents, the advance being 25 per cent. Variations of this character will occur in sundry rates of low amount, but usually as between points where the traffic involved is not large and would not therefore materially affect the general average of the 5 per cent. increase.

There are many instances throughout eastern territory where through rates to points on different roads are constructed on basis of adding to the rates to the junction points certain arbitrary rates. The rates to these junction points have in all instances been advanced, and in certain cases the arbitraries beyond junction points have been similarly advanced.

Where such arbitraries were not advanced, the revised through rates were increased only to the extent of the advance to the junction points, which was not equivalent to a full 5 per cent. advance in the through rate.

The rates from Albany, Syracuse, Binghamton and other interior points to western points bear a certain relation to the rates from New York or Buffalo to the same western points. Similarly, the rates from eastern points to Cincinnati, Indianapolis, Columbus and St. Louis bear a stated relation as compared to Chicago and as compared with each other.

These relations are recognized as long-established factors in commercial operations, and it is understood that it would be preferable from the public standpoint that they should be continued rather than that the increase should be computed directly upon the existing rates to such points, although the observance of the present plan results in variations from an exact 5 per cent. advance.

The new rates to various western points from Philadelphia and Baltimore are computed by employing the New York-Chicago rates as the basic rates and then observing the differential relation governing at Philadelphia and Baltimore under New York, and also observing the percentage group system as governing at western points.

It is believed that, notwithstanding the variations, the application of the new rates to the entire traffic affected will very closely approximate an advance of 5 per cent.

Proposed Rate Advances in the Middle West

December 18, 1913.

In order that there may be a clear understanding of the method of applying the proposed 5 per cent. increase in freight rates to the complicated rate structure in the Middle West, the railroads have filed with the Interstate Commerce Commission a statement prepared by Mr. E. Morris, Chairman of the Central Freight Association.

* * * *

Class Rates in C. F. A. Territory

The *class* rates between points within Central Freight Association territory, both intrastate and interstate, were, except as may be hereafter stated, increased as follows: Rates 5¾ cents per 100 lbs. and less were increased ¼ of one cent; rates in excess of 5¾ cents were increased 5 per cent.; minimum increase, ¼ cent per 100 lbs.

An exception to an increase of 5 per cent., literally speaking, is the employment of the established differentials from Youngstown and Cleveland rate points.

A second exception to the literal increase of 5 per cent. is the *intrastate* class rates applying between points in the Lower Peninsula of Michigan and also the *interstate* rates applying between points in the Lower Peninsula of Michigan, and certain points in northern sections of Indiana and Ohio adjacent to Southern State Line of Michigan, which

were affected by the basis announced for recheck of the intrastate rates between points in the Lower Peninsula of Michigan.

The rates from and to Louisville, Owensboro, Henderson and Paducah, Ky., which were made subject to established arbitraries in excess of the increased rates published from and to the usual Ohio River base points in cases where arbitraries were used in obtaining present rates.

Still another exception to an increase of 5 per cent. are the rates proposed between Buffalo, N. Y., Erie, Pa., Salamanca, N. Y., Pittsburgh, Pa., Wheeling, W. Va., and points taking same rates, and points contained in territory taking higher than 100 per cent., and *some* points taking 100 per cent. of rates applying from Chicago to New York City. The rates between these points were advanced subject to established percentage of the increased rates proposed *from* same origin points *to* New York City.

Class Rates
Extra Territorial

The rate increase, in so far as it applies where *joint through rates* are in effect from and to south, southwest and northwest, is as follows:

(NORTHWEST.) The rates *between* points located in territory *East* of the Indiana-Illinois State Line and points in Wisconsin, Eastern Minnesota and Upper Peninsula of Michigan, taking Winona, St. Paul, Duluth (Minn.), Marquette, Hancock, Houghton, Michigamme and Sault Ste. Marie (Mich.), rates were in-

creased to the extent of the increase made in the rates applying between Pittsburgh and Chicago.

The rates applying between Buffalo and Pittsburgh rate points and Lexington and Winchester, Ky., groups were advanced subject to the usual percentage of the increased basing rates announced to apply between Lexington and New York City.

(SOUTHWEST.) The joint through rates applying from territory above described located east of the Indiana-Illinois State Line to Arkansas and other Southwestern territory *are* to be increased to the extent of the increase made east of St. Louis on the 5 per cent. advance.

Commodity Rates in C. F. A. Territory

The *commodity* rates applying between points in this territory, both intrastate and interstate, were also advanced in the same manner as class rates. The differential adjustments were used from western Pennsylvania, eastern and southern Ohio.

The commodity rates now published between points in this territory on basis of percentage of established class rates will continue to be made on same percentage basis, but subject to the class rates increased on basis mentioned above.

Commodity Rates Extra Territorial

The extent to which the *joint through* commodity rates applying from and to South, Southwest and Northwest were increased is as follows:

(NORTHWEST.) The *joint through* commodity rates published between points located in territory mentioned above east of the Indiana-Illinois State Line and points in Wisconsin, eastern Minnesota and Upper Peninsula of Michigan, taking Winona, St. Paul, Duluth (Minn.), Marquette, Michigamme, Houghton, Hancock and Sault Ste. Marie (Mich.), rates were advanced amounts equal to the increase made in the commodity rate applying between Chicago and points east thereof.

In some cases the advance made in the commodity rate from or to Chicago (as the case may be) and the base point east thereof was the measure of the increase made in the joint through rates published on same commodity from all points in respective origin territories.

(TO TRANS-MISSISSIPPI RIVER TERRITORY.) The joint through commodity rates from territory located east of the Illinois-Indiana State Line, to Trans-Mississippi River territory, Montana, Wyoming, Colorado, Oklahoma and east thereof, to which joint through commodity rates are published from said origin territory, were advanced to the extent of the increase made in the rates from the base or origin points mentioned (as case may be) to the junction of Central Freight Association and Western roads which was used as the western base point.

* * * *

Through rates made on combination of locals or proportional rates were increased to extent of increase made in the locals or proportional rates applicable from and to the base point used.

Rail-and-Lake Rates—Class

The *class* rates from points in Western New York and Pennsylvania, Ohio, Indiana, etc., to points named in caption were advanced on basis as follows:

First—Combination of locals on increased basis to and from Lake Erie ports were used.

Second—Baltimore rates on increased basis were applied as *maxima.*

Third—The usual grouping and adjustments were observed.

Fourth—Customary differentials below all-rail rates were applied.

Rail-and-Lake Rates—Commodity

The *commodity* rates were obtained as follows:

Manufactured Iron and Steel Articles—Rates were increased subject to foregoing principle as mentioned for class rates.

Cast Iron Pipe—Rates were increased subject to usual differentials under all-rail rates from base points to St. Paul, Minn.

Miscellaneous Commodities — Joint Through Rates were increased 5 per cent.

Rates from C. F. A. Territory to Trunk Line Territory — Class

The *class* rates from Chicago, Ill., to New York City were increased 5 per cent.

The *class* rates from other points in Central Freight Association territory to New York City were increased subject to the established percentage of the

advanced basing rates as named above to apply from Chicago to New York City.

The rates to interior Eastern basing points were computed subject to the established percentage of the advanced basing rates to New York City.

The rates to Boston rate territory are made subject to the following arbitraries in excess of the advanced rates to New York City:

1	*2*	*3*	*4*	*5*	*6*	Classes.
7	6	5	4	3	2	Cents per 100 lbs.

The advanced rates to Philadelphia rate points are made subject to an arbitrary of 2 cents per 100 pounds for all classes below the increased rates to New York City; and the advanced rates to Baltimore rate points are made subject to an arbitrary of 3 cents per 100 pounds below the increased rates to New York City.

The advanced rates to Newport News and Norfolk rate points are the increased rates to Baltimore, except from certain territory located south and east of Columbus, Ohio. From this excepted territory the usual practice was observed and the increased rates from Columbus, Ohio, to Baltimore, Md., are applied as *minima* to Virginia cities.

Rates from C. F. A. Territory to Trunk Line Territory—Commodity

The *commodity* rates (which are commonly understood to mean rates applicable on articles that are not subject to the established class rates governed by

Official Classification) from origin points west of Buffalo and Salamanca, N. Y., Pittsburgh, Pa., Parkersburg and Charleston, W. Va., to points east thereof, were also advanced subject to 5 per cent. increase in the basing rates applying to New York City.

Where a basing rate existed from Chicago to New York City, such basing rate was advanced 5 per cent., and the rates in effect from other points in said origin territory to New York City were computed on the established percentage of the advanced basing rate from Chicago to New York City.

Where there are commodity rates from origin points located in Central Freight Association territory and no commodity rates are now published from Chicago on like traffic, such commodity rates from each origin point to New York City were advanced 5 per cent.

The rates to interior Eastern basing points were computed subject to the established percentage of the advanced basing rates to New York City, except where the present rates may have been arrived at subject to different procedure, in which event such procedure was observed in publication of increased rates.

Export Rates

The rates on by-products of grain, etc., from points located in territory described under Section 1, when for export, were advanced as follows:

From Chicago to New York City, the basing rate was increased 5 per cent.

From points taking 100 per cent. and

less, the increased rates were obtained as follows:

To New York City, established percentage of the increased rates from Chicago to New York City.

To Boston, Philadelphia, Baltimore, Newport News and Norfolk, the usual rule was observed.

From points west and south of Chicago taking in excess of 100 per cent. of Chicago to New York rate, the arbitraries above referred to were added to the increased rates from Chicago.

Rail—Lake-and-Rail Rates

The rates from points in Western Indiana, also Illinois and on Mississippi River to Buffalo, Salamanca, N. Y., Pittsburgh, Pa., and points east thereof, were advanced subject to established differentials less than the all-rail rates on the increased basis.

Rail-and-Ocean Rates

The rates from points in Central Freight Association territory to North Atlantic Seaboard ports were advanced subject to the established differentials less than the all-rail rates on increased basis.

The rates to eastern points which make on arbitraries over rates to the base point will continue to be made in the same manner subject to the increased rate to the base point.

Methods of Adjusting Increased Coal Freight Rates

December 20, 1913.

In order that the methods pursued in adjusting the proposed 5 per cent. increased freight rates to the coal rate structure may be clearly understood, the railroads interested have filed with the Interstate Commerce Commission two general statements. The first of these, relating more particularly to the Eastern territory, was prepared by Mr. R. H. Large, General Coal Freight Agent of the Pennsylvania Railroad Company. The substance of Mr. Large's statement is as follows:

I.

The instructions received from the Executive Committee of the Trunk Line and Central Freight Associations required that a general advance be made of 5 per cent., with a minimum of 5 cents per ton, the existing differentials to be preserved.

It was determined by the coal traffic officers:

(1) That wherever port or regional differentials existed, in making the 5 per cent. advance such differentials should be preserved.

(2) That fractions of 49/100 of one cent should be dropped, and where the straight 5 per cent. figured 50/100 of one cent, a cent should be added.

Bituminous Coal Rates Eastbound

(1) *Tidewater.*

The existing rates on Bituminous coal to the Atlantic seaboard for trans-shipment by water to coastwise or export destinations from the various fields of origin hereinafter designated to the sev-

eral ports of trans-shipment, which rates have existed since May 1, 1907, are as follows:

From the Georges Creek and Cumberland, Upper Potomac, Austen-Newburgh, Meyersdale, Somerset and Clearfield regions:

To Baltimore, f. o. b. vessels, $1.18 per gross ton.

To Philadelphia, f. o. b. vessels, $1.25 per gross ton.

To the lower New York Harbor ports of South Amboy, Elizabethport, etc., $1.55 per gross ton.

To the upper New York Harbor ports, $1.60 per gross ton.

From the New River and Pocahontas districts to Hampton Roads, via the Chesapeake and Ohio Railway, Norfolk and Western Railway and Virginian Railway, $1.40 per gross ton.

While the basic rate to tidewater is the rate from the Georges Creek and Cumberland region to Baltimore, via the Baltimore and Ohio Railroad, of $1.18 per gross ton, it may be said that the basing rate is the $1.25 rate to Philadelphia, on which rate the differentials to the several other ports are based.

* * *

As a straight 5 per cent. advance in the aforesaid rates would have resulted in an advance of 8 cents in the $1.55 rate to New York Harbor, of 7 cents in the $1.40 rate to Hampton Roads and of 6 cents in the $1.25 and $1.18 rates to Philadelphia and Baltimore, and as it was essential that the prevailing differ-

entials to the several ports should be preserved, it was determined to advance the tidewater rates based on the average rate to all ports.

Adding the five before-mentioned rates together and dividing by five gives an average rate of $1.396 per gross ton, 5 per cent. of which would be 7 cents per ton, the equivalent of a 5 per cent. advance in the $1.40 rate to Hampton Roads. It was therefore determined to advance the tidewater rates 7 cents per ton. Thus, while the rate to Hampton Roads would be advanced exactly 5 per cent., the rate to New York Harbor less than 5 per cent., and the rates to Philadelphia and Baltimore slightly more than 5 per cent., the port differentials are preserved.

It was further understood that the existing regional differentials over and above the aforesaid rates from the Georges Creek and Cumberland, Austen-Newburgh, Meyersdale, Somerset and Clearfield regions, and from the New River and Pocahontas regions, should be preserved. For example, the rates to Baltimore, Philadelphia and New York Harbor from the Greensburg district are 10 cents per ton above the rates from the Clearfield region; from the Westmoreland and Fairmont regions, 25 cents above the rates from the Clearfield region, etc.

Those, as well as all other regional differentials to tide, were preserved, so that all rates on Bituminous coal to the Atlantic seaboard for trans-shipment into vessels for coastwise or export trade were advanced a straight 7 cents per ton—*i. e.*,

an average advance of 5 per cent. on the minimum rate to tide, which of course yields materially less than a 5 per cent. advance on the average rate to tide.

(2) *All-Rail—New England.*

It was further determined, using as the basing rate the minimum rate (which is the Clearfield-Somerset rate), to advance the all-rail rates to New England a straight 5 per cent., observing the rule with respect to fractions decided upon, and that the inland rates from the ports of entry in New England to the interior of New England should be advanced 5 per cent., with a minimum of 5 cents per ton, by the New York, New Haven and Hartford Railroad Company, the Boston and Maine Railroad Company and others.

(3) *All-Rail — Eastern Rates Other Than New England.*

The all-rail rates to eastern destinations in New York State, Pennsylvania, New Jersey, Delaware, Maryland, Virginia and the District of Columbia, and into Canada via the so-called St. Lawrence River gateways, were advanced a straight 5 per cent., using as the basing rate the so-called Clearfield-Somerset-Meyersdale rate, and the regional differentials over and above that rate were preserved both in the all-rail rates to New England and in the all-rail rates to the other territory referred to.

Northbound

The rates to the Buffalo district were advanced 6 cents per ton, that being 5 per

cent. on the minimum rate, *i. e.,* the rate from the Reynoldsville district of $1.10, and likewise 5 per cent. on the maximum rate, *i. e.,* the rate from the Pittsburgh district of $1.25. This advance of 6 cents per ton was likewise made in the proportions of the through rates to the north side of Lake Erie in such joint rates as were published into Canada via Ashtabula and other Lake Erie ports and across Lake Erie car ferry routes, thus preserving the existing relation between the all-rail rates via those routes and the combination of the rates to and beyond Black Rock.

Westbound

(1) *Cargo Coal Rates.*

The existing rates on Bituminous coal from the several fields of origin to Lake Erie ports for trans-shipment as cargo up the Great Lakes are as follows:

	Per Net Ton.
From the Pittsburgh district	$ .78
From the Ohio district	.75
From the Fairmont district	.90
From the Kanawha and Thacker districts	.97
From the Pocahontas and New River districts	1.12

As the rates from the Pittsburgh, Ohio, Fairmont, Kanawha and Thacker districts were less than $1 per ton, and as the executive officers had determined that the minimum advance should be 5 cents per ton, it was decided to advance all the rates from the several fields of origin to the several Lake Erie ports for trans-

shipment as cargo up the Great Lakes a straight 5 cents per ton, thus preserving the existing regional differentials.

(2) *Line Rates.*

In the all-rail rates to the West, the Pittsburgh district rate was used as the basing rate. That rate was advanced 5 per cent., the regional differentials from the other districts being preserved. In this instance, in the case of the rate to Chicago and some other western places where the rates all-rail from the Ohio district are on a differential of 25 cents per ton less than the Pittsburgh district rate, the advance may be said to be slightly more than 5 per cent.

Anthracite Coal Rates

Eastbound

By reason of the fact (1) that the existing rates on Anthracite coal to the East are already the subject of bitter attack and that the Interstate Commerce Commission is about to proceed with an exhaustive examination into the rates, rules, regulations and practices of the several carriers of Anthracite coal, and (2) that the small sizes of Anthracite coal must practically all be sold in the East and are now sold at a loss (that is, at less than the cost of production) in competition with Bituminous coal, no advance therein was made.

Westbound

The rates on Anthracite coal to and beyond the western termini of the Trunk Lines were advanced a straight 5 per cent. That is to say, the rate to Buffalo was

advanced 5 per cent. and the rates published by the several lines operating westward therefrom were also advanced 5 per cent., as were likewise the all-rail rates to and beyond Pittsburgh, published by the Pennsylvania Railroad Company and its connections; the rates to and beyond Salamanca, published by the Erie Railroad Company and its connections, and the rates to and beyond Pittsburgh, published by the Philadelphia and Reading Railway Company in connection with the Baltimore and Ohio Railroad Company, and their connections, and all other all-rail rates, with the exception that to the several Mississippi River crossings, to which there are joint rates established, which rates are based on certain differentials over and above the Chicago rate, those differentials were preserved.

Coke Rates

It will be observed from the foregoing that in every instance, with the exception of the rail rates to Chicago and a few other western places, in so far as the advances in the Bituminous and Anthracite coal rates are concerned, the basing rate on which the 5 per cent. advance was made was the minimum rate. The reason for that was that the preponderant proportion of the Bituminous coal tonnage moved under those rates, and it was realized that unless the minimum rate was used as the basis the carriers would receive a greater return than 5 per cent.

In advancing the coke rates we deviated from this practice in principle, but only

to a very slight degree in result. By reason of the fact that the preponderant proportion of coke—probably 90 per cent. or more—consumed throughout the Eastern and Middle States is produced in the Connellsville region, which rate, generally speaking, is the maximum rate, it was determined but fair to use that rate as the basing rate, and therefore the rates on coke from the Connellsville region eastbound, northbound and westbound were advanced 5 per cent. This results in a greater advance than 5 per cent. in the rates from the Fairmont, Latrobe and Mountain regions eastbound, but as the production in those fields is exceedingly limited as compared with the production in the Connellsville field, the net result is that the advance will be but slightly more than 5 per cent.

* * *

The sum and substance of the entire matter is that by reason of using the minimum rate as the basing rate in every instance in advancing the coal rates, except in the case before referred to, the general advance published in the tariffs already filed will be in the aggregate materially less than 5 per cent.

II.

Coal Rates in the Middle West

The statement filed with the Commission covering the increase of coal rates in the Middle West was prepared by Mr. George H. Ingalls, Freight Traffic Manager of the "Big Four" Railroad, and is as follows:

In advancing coal rates westbound, the

Pittsburgh-Chicago rate was taken as the base rate, and the rates from that district were advanced 5 per cent. to all points north of the Ohio-Michigan Line and to all points west of a line drawn from Toledo to Cincinnati on the C. H. and D. Railway; to all points on and east of that line they were advanced 5 cents per ton. The rates to Chicago, Peoria, St. Louis and Cairo were advanced 10 cents per ton, as well as the proportional rates to the Upper Mississippi River Crossings and Across-Lake—this to equalize, via those junctions, the rates made to western points on the Chicago combinations.

As the Ohio rates are carried on a differential under the Pittsburgh rates, the same advance was made in the rates from the Ohio fields to the territory outlined above, thus maintaining the regional differentials.

Rates on coal to the Lake for trans-shipment from the Pittsburgh district were advanced 5 cents per ton, and, in order to maintain likewise the regional differentials, the rates from Ohio fields to Lake for trans-shipment were advanced 5 cents per ton.

The coal fields in Indiana and Illinois have been treated as one coal field—any change in rates from one State necessarily affecting the rates from the other State. Therefore, it has been the practice to consider together the rates on coal from both States.

There are in existence to-day practically ten working districts, with as many rates, and in order to maintain the present

regional differentials, the rates have been advanced uniformly from each district 5 cents per ton to Chicago and Chicago Rate Points.

The rates to northern Illinois and southern Wisconsin, south of a line on or south of the C. M. and St. P. Railway, Milwaukee to Madison, via Watertown, thence via C. and N. W. Railroad to Dodgeville, were advanced 5 cents per ton from each district.

Rates to northern Illinois, southern Wisconsin and some points in Iowa have been advanced 5 cents per ton from each district. The rates to the north of the above outlined territory have not been advanced, due to the fact that these markets are competitive with eastern coal handled via lake, and no advance having been made in rates from the head of the Lakes to this territory, it was felt equitable to maintain the present basis of rates.

The rates from Indiana and Illinois to southern Indiana and Illinois points have been advanced 5 cents per ton uniformly from each district.

No advance has been made to points south of the Ohio River, due to there being no corresponding advances from competitive fields in Alabama.

An advance of 5 cents per ton has been made from Indiana and Illinois points to all central and northern Indiana points, thus maintaining the regional differentials.

To Michigan points, the rates from Indiana and Illinois are based on propor-

tional rates to Chicago junctions in connection with specifics into Michigan.

The rates from the Danville group to Michigan territory are the base rates and were increased 5 per cent., and an advance of the same amount per ton made from other Illinois-Indiana districts, thus maintaining the regional differentials. This corresponds to the 5 per cent. advance to this territory that has been made from eastern coal fields.

As tariffs from Illinois districts serving St. Louis markets were filed on April 1, 1913, advancing the rates on coal 5½ cents per ton to East St. Louis, East St. Louis rate points and St. Louis proper, and the same having been suspended by the Interstate Commerce Commission and being now in the course of investigation. no further advance has been made in those rates. The proposed advance would maintain the present regional differentials.

As of November 29th, the proportional rate on coal destined to points west of St. Louis were advanced 5 cents per ton, uniformly.

Where through rates are made, in combination with the Iowa distance rates on fine coal, the rates have been advanced 5 cents per ton, the same as the Upper Mississippi River Crossings, thus maintaining the regional differentials.

How Railroad Wages Have Been Increasing

December 21, 1913.

The railroads participating in the application for increasing freight rates have filed with the Interstate Commerce Commission statistics showing how wages have increased on these roads during the past several years.

The various railroad companies in this territory paid out $506,000,000 in wages and salaries in the year ending June 30, 1913. Estimates for 29 of the 38 railroad systems concerned show an increase in wages for 1913 over 1910 of $48,618,-972.41, due to changes in rates of pay and working conditions.

This figure was obtained as a result of a request to the railroads to take the actual performance for the year ending June 30, 1913, and compare the rates of pay and working conditions prevailing in that period with those in effect in October, 1909, a period prior to the date of the important increases.

In addition to the increases up to June 30, 1913, careful estimates show that the increases in wages recently granted to the firemen, conductors and trainmen will add not less than $8,750,000 more to the expenses of the railroads parties to the respective arbitration proceedings, this estimate being based on the volume of business for the calendar year 1912.

In addition to the wage increases granted in the calendar year 1910, a small portion of which was effective in the fiscal year ending June 30, 1910, the Engineers,

Firemen, Conductors and Trainmen have been awarded increases through Arbitration Proceedings amounting to $10,350,000 per annum on the Eastern Railroads, and increases in rates of pay have been granted to various other classes of labor amounting to large sums in the aggregate in addition to those granted in the year 1910.

Taken altogether, there has been an increase of 10.62 per cent. in the average rates of pay on these railroads in 1913 over 1910.

* * * *

Figures for the Pennsylvania System show that during the year 1913 the various companies of the System paid in wages the sum of $189,397,069—an increase for the 1913 payroll of $18,088,673 over what would have been paid to the same number of employes at the rate of wages prevailing in 1909.

Various increases and adjustments in wages from 1901 up to June 30, 1913, applied to the 1913 performance, added over $45,000,000 to the payrolls of the Pennsylvania System companies by reason of changes in rates of pay and working conditions.

The records of the New York Central lines show that wages paid since 1910 have amounted to $10,000,000 more than would have been the case had not the successive increases and adjustments been made.

On the Baltimore and Ohio Railroad the increases amounted in this period to $4,069,014.

Attitude of the Railroads Concerning Questions Submitted by the Commission

January 7, 1914

On December 26, 1913, the Interstate Commerce Commission addressed to the carriers concerned in the case for advanced freight rates a series of 78 questions relative to the organization and practices of the railway companies.

On January 7, 1914, a committee representing the carriers appeared before the Commission, and the general attitude of the railroad companies concerning these questions was set forth by Mr. Daniel Willard, President of the Baltimore and Ohio Railroad Company, at the opening of the hearing, as follows:

"This Commission, in its circular letter of December 26, 1913, addressed to carriers in Official Classification, announced that it would on January 7, 1914, hear parties concerning any matters in connection with the list of questions therewith submitted, and as to which further instructions might be desired. It is in response to that invitation that the carriers interested in this proceeding appear here to-day.

"The carriers have given careful consideration to the questions referred to, and they wish to announce first of all their entire willingness to co-operate as completely as possible with the Commission in a full and thorough development of the whole case, and to that end will endeavor to furnish any and all information which

may be desired, but inasmuch as the Commission has ordered that complete answers to all of the 78 questions be submitted not later than January 31, 1914, and in view of the fact that some of the questions contemplate a review of complicated transactions extending over a period of fifteen years, it has seemed desirable to the carriers that they avail themselves of the opportunity now afforded to discuss the matter.

"The Commission states in its letter of inquiry that 'elaborate and helpful compilations from the carriers' accounts have been submitted by the railroads with a view to showing the diminishing net returns from operations and lessened net income,' but it says further that 'these statements of the financial result do not furnish fully the data deemed by the Commission to be necessary to determine the general course carriers may pursue to meet the situation' and that additional data is desired in that connection.

"The carriers involved have, since the inquiries were received, made as thorough an examination as possible of the questions for the purpose of developing the information required as well as the time and expense involved in furnishing full and complete answers thereto. This examination indicates that it will be impossible to furnish all of the information desired by January 31st, and that several months will be required in which to prepare some of the answers, and the work will involve a very considerable expense.

"However, for the purpose of develop-

ing how the information desired may be best obtained, and at the same time with minimum delay and expense, the carriers would like at this time to discuss with the Commission some of the more difficult features involved, and will be glad to submit suggestions with respect thereto.

"It may be mentioned in this connection that the chief executives of a number of the more important lines involved in the proceeding, desire to appear as witnesses when hearings are resumed, and it is quite possible that by cross-examination the Commission may be able to obtain from such witnesses much of the additional information deemed necessary to enable it to reach a determination of the matter at issue.

"While the carriers do not wish to appear as urging improper haste concerning a matter of such great importance, they are very deeply impressed with what appears to them to be the seriousness of the situation, and they hope it may be possible to proceed with the hearing without undue delay.

"They believe that they have already demonstrated, or will be able to do so, a necessity for increased revenue, and they feel that the advance proposed by the schedules now on file will, if granted, only serve to partly meet the necessary requirements of the situation. In suggesting, however, that the situation be met by a uniform advance of freight rates of approximately five per cent., the carriers have felt, as already pointed out, that that was the only practicable solution available at the present time."

Results of Operations in the Central West

January 14, 1914.

To set forth the needs of the railroads in the Central West, in the application for advanced freight rates, Mr. J. L. Minnis, attorney for the Central Freight Association Lines, has just filed with the Interstate Commerce Commission a digest of the evidence submitted by Mr. W. C. Maxwell, on behalf of the C. F. A. Companies.

Quotations from the digest prepared by Mr. Minnis follow:

"The data, therefore, covers a total mileage of 34,866 miles, arranged in groups.

"Group 1 contains the mileage of 38 companies aggregating 31,937 miles—28,186 miles, or 78.6 per cent. of the total mileage in the territory, and the 3,751 'outside mileage'—and includes all the mileage in the territory except 13.8 per cent. of the mileage of the territory; and except also, the mileage of forty-six short roads owned by forty-six companies, aggregating 2,729 miles, or 7.6 per cent. of the total mileage in the territory, whose aggregate gross revenue for the year 1911 was less than eight million dollars.

"(a) Prior to the fiscal year 1911 the carriers were free to promulgate their interstate rates and substantially the body of their intrastate rates, and to adjust them from time to time to ever-changing conditions, and were, in a practical sense, unhampered in the management of their properties.

"(b) The ratio of operating expenses and taxes to operating revenues of Central Freight Association territory lines reached the low point

of a descending period in 1910, and began to ascend in 1911—for instance, the ratio of Group 1 was:

1908	75.11%
1909	73.28
1910	72.40
1911	76.49
1912	77.25
1913	78.56

"(c) Beginning with the year 1911, the power of the carriers to promulgate their interstate rates, and substantially the body of their intrastate rates, was placed under the supervision of the National and State Governments, so they could not adjust their rates to the increasing ratio of expenses and taxes to earnings; and other governmental regulatory laws have been enacted affecting the management, expenses and revenues of the carriers.

Results for 1910 and 1913

"The lines of Group 1 increased their mileage, 1913 over 1910, first main track owned 684 miles, operated 828; all tracks owned 3,320 miles, operated 3,568; and increased their property investment $225,503,220.

"Operating revenue, 1913 over 1910, increased $71,398,933; operating expenses and taxes increased $84,934,336; operating revenue, after deducting operating expenses and taxes, decreased $13,535,403; or, after deducting operating expenses, taxes and rentals, decreased $13,893,910; or, after deducting operating expenses, taxes and hire of equipment, decreased $15,133,257; or, after deducting operating expenses, taxes, rentals and hire of equipment, decreased $15,491,764. The decrease in net corporate income was $23,207,414.

"The increase in operating revenue, $71,398,933, measures an additional service rendered the public—increase, 1913 over 1910, in tons carried one mile, approximately ten billion, or an increase of 16.43 per cent.; and in passengers carried one mile, four hundred million, or an increase of 7.32 per cent.

"Notwithstanding the much larger volume of business enjoyed in 1913 over 1910, the power of the carriers to earn a return on their property, declined substantially.

Results in Group 3

"While the showing of Group 1 indicates that the carriers as a whole in the territory are rapidly approaching financial disaster, it is believed the showing of that group is far above the average railroad situation in the territory.

"Group 3 embraces 28 companies which operate 19,416 miles, or 54.1 per cent. of the entire mileage of the territory. It includes all the mileage in the territory except that of the 'four main trunk line connections,' the 'coal and ore roads,' the 'forty-six short roads' and the 'excluded mileage' (the B. & O. and Erie, C. B. & Q., etc.), and embraces all the mileage which serves generally the people of the territory, and whose prosperity is dependent upon the territory.

"Obviously, the reasonable needs of the lines embraced in Group 3—54.1 per cent. of the entire mileage of the territory, to say nothing of the forty-six short roads—must control in determining the reasonableness of rates in the territory, if the

people in that section are to have adequate transportation facilities and prosper measurably with other sections of the country.

"The lines in Group 3 increased their mileage, 1913 over 1910—of first main track owned, 543 miles; operated, 604 miles; of all track owned, 2,020 miles; operated, 2,106 miles; and increased their property investment, $99,570,844.

"Operating revenue, 1913 over 1910, increased $33,025,190, but the operating expenses and taxes increased $43,724,956, resulting in a decrease in operating revenue, after expenses and taxes, of $10,699,766; or a decrease in operating revenue, after operating expenses and taxes and rentals, of $10,271,473; or a decrease in operating revenue, after operating expenses and taxes and hire of equipment, of $13,526,961; or a decrease in operating revenue, after operating expenses and taxes, rentals and hire of equipment, of $13,098,668; and a decrease in net corporate income of $15,987,445.

"The increase in operating revenue, of $33,025,190, measures an increase, 1913 over 1910, in tons carried one mile of four and one-half billion; passengers carried one mile, one hundred and forty-five million.

"It will be observed that after swelling the volume of business by this increased traffic and increasing the property investment approximately one hundred million dollars, Group 3 had remaining, after deducting operating expenses and taxes, above ten million dollars less money than in 1910.

Dividends Paid in 1910 and 1913

"Dividends paid by the lines in Group 3 decreased, 1913 as compared with 1910, $5,943,035. The companies paying dividends in 1910 include the Grand Rapids & Indiana—which has not paid subsequent dividends—and the Chicago & Alton and Toledo, St. Louis & Western—who ceased paying dividends in 1913. In 1911 four companies reduced their dividends; in 1912 five companies reduced their dividends; and in 1913 six companies reduced their dividends.

"Only nine companies out of the twenty-eight in Group 3 paid dividends in 1913."

Situation of Eastern Railroads in March, 1914

MARCH 20, 1914.

At the hearing before the Interstate Commission today, Mr. George F. Brownell, vice-president of the Erie Railroad, in requesting that the commission proceed immediately to hear the conclusion of the case of the railroad, made the following statement to the commission:

It is the earnest desire of the carriers, as it has been their desire since these proceedings were instituted, to complete the presentation of their evidence in support of the advanced rates and close their case at the earliest possible date, in order that the matter may be submitted for the consideration and determination of the commission without any avoidable delay. The petition of the carriers for a hearing of the commission's determination in the 1910 case, as to the necessity for additional revenue to be determined through higher freight rates, was filed in May of last year.

The commission, under date of June 21st, denied the petition for rehearing, but instituted a proceeding of inquiry (Docket 5860) into the following matters:

1. Do the present rates of transportation yield adequate revenue to carriers by railroad operating in official classification territory?

2. If not, what general course may carriers pursue to meet the situation?

* * * *

In its report upon the petition for a rehearing, Commissioners Clements and

Marble dissented from the institution of this proceeding of inquiry upon the ground that it should not be made in advance of the filing and posting of the proposed increases. Commissioner McChord, while agreeing to the general proposition stated by Commissioners Marble and Clements, was of the opinion that the investigation should be made.

In these circumstances and in order, among other things, to meet the views of the commissioners named, the carriers filed their tariffs providing for a general increase on the basis of 5 per cent., with certain minima and certain modifications in order to preserve certain necessary differentials. These tariffs were to become effective November 15, 1913, but were suspended by order of the commission November 4, 1913, by which order the commission also instituted this hearing (Docket No. 333) concerning the propriety of the increases, and the lawfulness of the increased rates, etc., stated in the tariffs so filed. The hearings have proceeded together.

The first hearing was on November 24th, at which time Messrs. Willard and Delano made opening statements for the railroad companies, and on that day and two succeeding days a large amount of evidence was presented by accounting officers of the carriers and other witnesses. The hearing was then adjourned for the purpose, among others, of permitting the representatives of the commission and others to examine the carriers' exhibits and prepare for the cross-examination of the ac-

counting officers, and other witnesses who had testified on behalf of the carriers.

The commission subsequently, by circular letter of December 26th, called on the carriers to prepare and submit answers to some 78 questions propounded by the commission, and announced that on January 7th it would hear parties concerning any matters in connection with the list of questions, as to which further instructions might be desired.

On January 7th the carriers appeared before Commissioner Marble and announced, through Mr. Willard, their entire willingness to co-operate as completely as possible with the commission and furnish any and all information which might be desired. They pointed out, however, that it would take at least several months to prepare answers to those questions, and that the work would involve a very considerable expense. At that time, and in that connection, Mr. Willard said:

"While the carriers do not wish to appear as urging improper haste concerning a matter of such great importance, they are very deeply impressed with what appears to them to be the seriousness of the situation, and they hope it may be possible to proceed with the hearing without undue delay.

"They believe that they have already demonstrated, or will be able to do so, a necessity for increased revenue, and they believe that the advance proposed by the schedules now on file will, if granted, only serve to partly meet the necessary requirements of the situation. In suggest-

ing, however, that the immediate situation be met by a uniform advance of freight rates of approximately 5 per cent. the carriers have felt, as already pointed out, that that was the only practicable solution available at the present time."

* * * *

Since then there have been numerous hearings with respect to the propriety of the carriers making additional charges for the spotting of cars on industrial tracks, lighterage, reconsignments, and diversions in transit, and other services, which are now performed without charge in addition to the regular tariff rate; also a number of hearings assigned to hear testimony offered by protestants against increases with respect to certain commodities.

In the notice from the commission under date of the 24th instant, assigning hearings for the 30th and 31st instant, it is stated that the carriers have expressed their desire to present at an early date additional testimony touching their financial requirements, also to have an opportunity to offer evidence in rebuttal of testimony recently introduced in opposition to the proposed increases in rates, and that March 30th and 31st were assigned for this purpose, and for hearing Mr. Thorne, and that if the carriers were not able to complete their testimony at the close of March 31st, the hearing would be continued April 20th, inasmuch as arguments had been set for the intervening days. The carriers will not be able to complete the presentation of their case in one

day, but could complete it in three days, and they respectfully and earnestly urge that the commission afford two additional days this week to enable them to complete their case.

* * * *

Present Earnings

The statement of the revenues and expenses of the carriers for the seven months ending January 31, 1914, show a decrease of operating revenue amounting to $6,995,529, and a decrease in operating income of over $51,000,000, as compared with the seven months ended January 31, 1913, being a decrease in operating revenues of 1.5 per cent.

The returns of the roads in Central Freight Association territory for the same period (Group 1) show a decrease of $8,178,477 in freight revenue, and a decrease in operating income of $25,195,598. This is without including the figures of the roads in Group 2 of the Central Freight Association roads, which, if included, would show a further decreased operating income of over $4,000,000.

The returns of revenues and expenses for February and March, so far as they are now available, are in the same direction, and are of such significance as compared, even with the returns for the fiscal year ended June 30, 1913, as to indicate that the condition confronting the carriers at the present time is one of gravity, and that it is of vital importance in the interest of the public, as well as of the petitioning carriers, that the question of the propriety of the advanced freight rates in-

volved in Docket No. 333, should be submitted to the commission for their determination at the earliest possible day.

* * * *

We desire, therefore, that opportunity now be afforded us to advise the commission fully with respect to the situation which now confronts the carriers and respectfully urge that the commission proceed with the inquiry as to the adequacy of freight revenues under present rates, and into the reasonableness of the advanced rates, without further deferring action thereon on account of the collateral inquiry in regard to the practices of the carriers involved in the proceeding of investigation, Docket No. 5860, but that the latter be considered by the commission in due course.

How Railroad Earnings Have Decreased

APRIL 7, 1914.

The railroads petitioning for a 5 per cent. increase in freight rates have filed with the Interstate Commerce Commission figures showing the results of operations for the seven months ending January 31, 1914, of the fiscal year beginning July 1, 1913.

For the three principal systems, namely, the Pennsylvania, Baltimore and Ohio and New York Central, returns show operating revenues of $458,472,676, a decrease against last year of $1,294,375, or 0.3 per cent. Operating expenses increased $25,157,945, and operating income decreased $29,513,161, or 24.8 per cent.

The forty railroads in Central Freight Association territory showed revenues of $316,584,427, a decrease since last year of $4,850,029, or 1.5 per cent. By reason of the great increases in operating expenses, the operating income of these roads showed a decrease of $25,195,598, or 30.7 per cent.

The Pennsylvania Railroad System with operating revenues of $223,693,157 increased over last year $1,231,796, while by reason of increased expenses the operating income decreased $8,434,640, or 15.9 per cent.

The Baltimore and Ohio System with operating revenues of $59,950,125 showed a decrease of $903,217 in gross, and a decrease of $2,227,429 in operating income, or 13.9 per cent.

Operating revenues of the New York Central System were $174,829,394, a decrease of $1,622,954, and showing a decrease in operating income of $18,851,092, or 37.8 per cent.

The Erie System gross operating revenues decreased $612,732, to a total of $37,630,081, and operating income decreased $2,643,970, or 24.8 per cent.

The figures for the forty-nine roads in the entire Official Classification territory showed operating revenues of $821,426,-031, a decrease of $6,995,529, and such increases in expenses that the operating income was reduced $51,026,935, or 22.5 per cent.

The Present Crisis in Railroad Conditions

APRIL 9, 1914.

In testifying before the Interstate Commerce Commission in the application for an advance of 5 per cent. in freight rates, Mr. Daniel Willard, president of the Baltimore and Ohio Railroad, when asked as to whether or not there was a crisis in the business situation demanding immediate relief, replied:

"I suppose I had better define first what is meant by a crisis, and what I have in mind when I speak of a crisis. When I speak of a crisis, what I have in mind is a condition like this:

"If it has come about, as it seems to have come about, that new money to provide railroad facilities does not now, under existing conditions, earn any return, then it would seem that the carriers could not be expected to put the amount of new money constantly into the property that is necessary in order to take care of the growing commerce which they are called upon to move.

"The history of the Baltimore and Ohio, for instance, shows that for a long period of years it has been necessary to expend from $15,000,000 to $20,000,000 of new capital upon the property each year for new equipment, new facilities, new tracks, and things that are necessary to take care of the developing country which it serves.

"If a condition should come about which would make it seem unattractive or unwise to the Baltimore and Ohio Rail-

road Company to continue to put that new capital into the property to provide new facilities and take proper care of the commerce that is growing all the time, then I should say there had come about a condition of crisis to those people who looked to the Baltimore and Ohio Company for transportation—just such a condition, for instance, as existed in 1910.

"I have already referred to the fact that when I came to the Baltimore and Ohio Railroad Company, the shippers complained that they were then confronted with a very serious situation, and that development in part of West Virginia particularly had stopped. To my mind that would be one indication of a crisis as affects the general public.

"There might be another phase of a crisis. I should say that we would be approaching a crisis whenever net earnings as a result of our operation were so small that our ability to maintain fair returns upon our existing capitalization was seriously in question. Those who hold our securities would certainly look upon that as a crisis approaching, for it would certainly have reference to their investment.

"I should also think that it might be considered there was a crisis at hand from the point of view of the workman, when a man who had been employed by a company for some time was deprived of employment, not because his services were not needed, but because of the inability of the employer to pay him. I should think that would be a crisis from the employes' point of view.

"As I view the situation, all of these phases are at hand to-day, in a state of

greater or less development, and I have referred to the reasons that have brought it about. I would like to say this in that connection also:

Not Tendencies, but Facts—Now

"Three or four years ago, when this matter was before the commission, the carriers at that time, as I recall, based their request for increased rates very largely upon what they considered to be the tendencies of that time, and they pointed out that while at that particular time they were able to meet their engagements, as they viewed it, the tendencies of a constant increase in wages, increases in taxes, and increases in other directions, brought about by various other forces, the tendencies of all of that would be in the near future to bring about a condition where they would not be able to maintain their fair and reasonable payments and to continue to provide additional facilities.

"To-day we have not rested our case upon the matter of tendencies. We have stated—I have stated—and I most earnestly believe, it is not a question of tendencies that confronts the railroads in the eastern territory now. It is a question of fact, and the facts either are or are not as we have endeavored to point out, and in the case of the Baltimore and Ohio, I honestly believe them to be as I have endeavored to show. It is not a question of tendency with the Baltimore and Ohio. It is a question of an exact state of fact at the present time."

Mr. Willard stated that since June 30, 1910, his company has spent about $56,000,000 in improving its property. The results of these improvements were largely

available for the traffic of 1913. In 1910 the company earned about $90,000,000 gross, and in 1913, $103,000,000, the largest earnings in the history of the company. But by reason of the increased expenses which had occurred in the meantime, their net earnings in 1913 were $751,000 less than they had been in 1910, before the additional capital had been spent for the additional facilities provided.

Increasing Difficulties of the Railroads

APRIL 11, 1914.

Mr. F. A. Delano, president of the Chicago, Indianapolis and Louisville Railway, commonly termed the Monon Route, in presenting to the Interstate Commerce Commission the situation in Central Freight Association territory, said that the commission in 1910 "thought the railroads were unduly alarmed at what they regarded the tendencies, and the commission pointed out that times were improving and that the railroads were going to fare better, apparently, rather than worse. The hopes of the commission do not seem to have materialized, and the fears expressed by the railroads have come true."

* * * *

With reference to the contention that railway credit, judged by market quotations on railway bonds, was improving, Mr. Delano stated that there was a wide difference between what might be known as railroad credit and what might be known as the price of securities.

"Now, to illustrate that point, take the case of the Wabash. If anybody should take the price of Wabash first mortgage 5 per cent. bonds, or second mortgage 5 per cent. bonds, for the period from 1889 down to date, he would find that the prices had been pretty well maintained. Those first mortgage bonds sold all the way down from 105 up to 110. There has been very little fluctuation. The prices on the sec-

ond mortgage bonds have fluctuated from 98 to 102.

"Now, that has no bearing at all on what may be called the credit of the railroad company. These mortgages were closed mortgages at the time the company was reorganized in 1889. There could not be any more bonds sold. Any additions to property had to be made either from surplus or from issuance of car trust notes or from the sale of third or fourth mortgage bonds—and there were such, there were debenture bonds that were equivalent to that—all of which went to increase the property and increase the security behind these same first and second mortgage bonds.

"It would entirely mislead Mr. Thorne or any other investigator, then, to simply consider the price of those first mortgage or second mortgage bonds, and reach a conclusion from that as to the credit of the Wabash. The credit of a railroad is really what it can raise money for from year to year.

"The railroads are in this position. Their senior securities have practically all been marketed. They must either sell a short time security like a note, a car trust note, something that you pay off the principal in instalments, or they must sell a consolidated mortgage bond or a convertible bond, something which has some speculative feature to attract the buyer.

"So, the vital question with these railroads is their credit as measured by what they can borrow money for. The Wabash Railroad last August, in the hands of a receiver, renewed receivers' certificates on the basis of 7¾ per cent., al-

though those receivers' certificates came in ahead of $40,000,000 of the refunding bonds.

The Real Measure of Railroad Credit

"That is a measure of the credit of a railroad rather than the price in the stock market of first and second mortgage bonds."

* * * * *

Mr. Delano called attention to the fact that the average gross freight rate in C. F. A. territory was not only less, but the average haul was less, than in any other territory in the country except one, namely, New England; and that the combination of the two, that is the rate per ton mile, on the whole is very much less in C. F. A. territory than in any other territory.

* * * *

With reference to maintenance charges, Mr. Delano said:

"In the last nine or ten years, more specifically from the year 1905 down to date, I found on the Wabash that in spite of a continuing increase in gross earnings, maintenance increased from between 24 to 25 per cent. of gross earnings to about 29 to 30 per cent. That was under precisely the same management through all that time, with precisely the same policy, and was not due to any conscious effort to increase maintenance or to improve the quality of the road more than was absolutely demanded by the public.

"I think you gentlemen are conscious that there has been a very steady, irresistible demand for improved conditions. Take maintenance of way. Sixty-five or 75-pound rails were once considered ample. To-day there are very few main

lines that do not find it necessary to lay 85-, 90-, and 100-pound rails.

"To-day we have to use, very largely, soft wood ties that are creosoted, in place of hard wood, white oak ties, which we were formerly able to get. The great State of Indiana, for instance, in the center of C. F. A. territory, is requiring all railroads to adopt automatic block signals and public safety demands it. In respect to maintenance of equipment, I might point out to you that 70 per cent. of maintenance of equipment is labor. The wages of labor in our shops have gone up very considerably in the last ten years.

* * * *

"Just as Mr. Willard very well said, what we have been able to accomplish in reducing expenses in conducting transportation has in a measure been reflected by an increase in expenses in maintenance. It costs more to maintain these big engines than it did smaller ones. It costs more to maintain big cars than smaller cars. Especially, it costs more to maintain old cars handled in big trains. It costs more to maintain tracks that are operated over by powerful engines, and switches, side tracks, passing tracks, and all items of that kind have increased; and while wages of track labor have increased far less than other wages, they have increased very considerably in the average.

* * * *

"Railroad officials generally believe that a valuation of the railroads will fully justify the property accounts; but they also realize that until that valuation is completed, they may be attacked, and the rail-

roads have no answer which they can make. For that reason the C. F. A. lines made no mention in their presentations, and did not urge in any way the argument for return on capital invested. Their whole case was based on the fact that since 1907 new capital has been invested in these companies, that the accounts have been kept strictly as this commission required them to be kept, and with that added capital invested in these roads, in most cases they showed less return than they did before the capital was invested.

"We simply submitted that complete statement as evidence that we could not on that sort of a showing continue to get capital to improve or develop these railroads."

* * * *

Mr. Minnis: "What would you say generally of railroads in C. F. A. territory? Are they prosperous or otherwise?"

Mr. Delano: "They are certainly not prosperous. In the group of railroads known as Group 3, in my opening statement it shows that of the 28 lines, 9 of them paid a dividend in the year 1913. The other 19 did not. Quite a number of the 19 were in the hands of receivers."

Obstacles to Raising New Railroad Capital

APRIL 13, 1914.

Mr. W. H. Williams, third vice-president of the Delaware and Hudson Company, in the 5 per cent. advance rate case has presented a statement to the Interstate Commerce Commission concerning the decline in railway credit and the increased competition, especially by municipalities and public utilities, for the world's available capital.

The substance of Mr. Williams' paper is as follows:

* * * *

Based on the yearly averages, the railroads are now compelled to pay more for their capital than at any time within the eleven years. The railroads are between upper and nether millstones. They are not only compelled to raise the net interest rate on their new offerings in order to withstand the higher rates offered by municipalities, but they must also contend in the investment market with the increasing amount of new standard public utility and industrial offerings.

Thus, on the one hand the railroads have to meet the competition of an increasing amount of securities of the very highest character as regards safety, *i. e.*, municipal borrowings; on the other hand, they have to compete with the high rates of return offered by the so-called public utility and industrial securities.

Railroad securities have lost a great deal of the strength of their former position as the most popular class of invest-

ment securities, occupying a place between government obligations (selling at a very low income yield), and public utility or industrial securities (offering a high income yield, but considered less desirable for conservative investment). This has contributed to (a) the pronounced fall in the prices of outstanding standard railroad securities, and (b) greater difficulty in procuring new railroad capital.

Investment Merits of Railroad Securities

The ability of the railroads to raise new capital has been impaired to a considerable extent by the following:

1. The inability of many railroads to issue further prior lien obligations as the mortgages on their existing lines and other property have become closed.

2. The decrease of net earnings due in part to decreases in rates and in part to higher operating costs.

3. Inability to obtain any increased return after increasing total investment.

4. Legal restrictions on railroad securities as investments for savings banks, trust funds and insurance companies.

5. Discrimination against railroad securities in the matter of exemption from taxation as contrasted with State and municipal bonds.

6. Risk attending railroad enterprises.

Owing to the rigidity of rates and the inability to adjust their charges to conform with changes in business or in operating conditions, railroads, in this respect, are at a peculiar disadvantage as compared with manufacturing concerns. Although railroads cannot expand earning capacity as industrial companies do, they

are, nevertheless, affected by business depressions.

The property investment of the railroads is increasing at a greater ratio than net operating income. Thus, the increase in the capital investment as of June 30, 1913, over June 30, 1910, of thirty-eight Eastern Railroads was $659,862,586, or 11.74 per cent., whereas net operating income actually decreased $16,311,321, or 4.62 per cent.

This condition is undoubtedly due in large part to the non-productive nature of much of railroad capital. Improvements such as the elimination of grades, elevation of tracks, electrification of terminals and the like, entail large capital expenditures without corresponding net return.

* * * *

Nothing Earned on New Capital

In recent years, notwithstanding large increases in gross receipts, increases in expenses and in taxes have been so great as to more than offset the additional receipts, so that for the new money which the investor has put into the railroads there has been little or nothing earned.

It should be noted that in 1913 the savings banks of the United States, reporting to the comptroller of the currency, owned about $821,500,000 of the railroad bonds against about $708,000,000 held by all other banks, trust companies, etc. These figures serve to suggest the serious effect upon these important agencies for the encouragement of thrift, and the irreparable damage to their depositors that would follow further depreciation of railway securities.

The failure to earn any return on new capital tends to produce a condition in which the payment of dividends would be impossible. Further, it should be noted that a number of companies whose bonds are already in the savings bank class are not able to obtain new capital by the issue of stock.

It is, therefore, essential that railroad earnings shall be large enough to place the companies in a financial position that will enable them to obtain necessary new capital by the issue of shares of stock and, at least, to maintain the position of the existing issues of bonds that are now available for savings bank investment.

Notwithstanding the large capital expenditures made by the railroads during the past six or seven years, the economies and increased traffic resulting therefrom have not been sufficient to offset the increased cost of wages, materials, supplies and taxes, so that with a substantial increase in their fixed charges the railroads have had a less amount available with which to meet such charges.

* * * *

Railroads Need $600,000,000 New Capital Per Year

If the railroads are to secure sufficient funds, their credit must be improved and this can only be accomplished by larger excess of current earnings over the current cost of operation and taxes. Increased capital cannot be invited in any other way. The railroads of the United States invest annually about $600,000,000.

The bulk of this new capital must be obtained from private investors. These,

naturally, place their funds where the prospects for fair returns are reasonably assured. They will put their money into railroads, therefore, only when the investment returns in railroad properties are as good and as well secured as in other enterprises.

This competition of outside securities is an element in the cost of capital to the railroads. It must be successfully met if transportation systems are to continue developing and expanding.

Higher Cost of Railroad Living

APRIL 14, 1914.

Testifying before the Interstate Commerce Commission in the 5 per cent. advanced rates case, Mr. W. C. Wishart, statistician of the New York Central Railroad, spoke in substance as follows concerning "A Railroad's Cost of Living":

* * * *

Rates of pay for transportation have gone down sharply. The consumer of today can secure more transportation for a given amount of goods than he ever could before, and the carrier continues to sell at declining prices regardless of cost of production. While revenues per unit of traffic have remained fairly constant, as measured in money, the railroad has suffered a heavy decline in actual compensation for its services, on account of the decreasing purchasing power of the dollar.

Though it has been necessary time and again to raise the scale of wages to meet the demands of employes and to procure the necessary labor, the railroad must still accept for its services an average rate which is very much depreciated in exchange value from that which it had when the present rate level was established.

While transportation revenues per unit of traffic appear, since 1902, to have remained fairly constant, in that they are expressed in approximately the same figures year after year, influences beyond the control of any group of men have been at work quietly and constantly to reduce the

actual compensation to the carrier to a level which is estimated as almost 40 per cent. below that of 1896.

The ability of a railroad to purchase labor, supplies and credit has been impaired by the general increase in commodity prices in the face of a fixed rate of return per unit of service, for it may be shown that the cost of labor, supplies and capital increase as the general price level rises.

* * * *

While average revenues have declined somewhat, wages have risen 24 per cent. per unit of traffic, and other expenses and taxes about 12 per cent. per unit of traffic, but it has been possible to do a larger business per dollar of plant investment.

* * * *

Railroad Doubly Penalized

A railroad which cannot adjust its rates to meet rising costs, and thereby suffers a loss in relative net earnings, is doubly penalized. First, it must pay more on account of the general rise in interest or rent for the use of capital; and, second, it must suffer through its inability to offer as good security as formerly or to maintain a margin of profit great enough to offset the change in the character of the security offered. Both factors increase the cost of production and in most enterprises are met by an increase in the selling price of the product.

The present difficulty of the railroad, however, arises more largely out of the increased cost of operation and taxes, the current expenses, which have kept pace with the rise in commodity prices and have advanced faster than gross revenues

or traffic. The increasing cost of plant and higher fixed charges make themselves felt more slowly, but are none the less serious.

If the service of transportation were paid for in kind, that is, by taking toll of the commodities carried, and the standard toll to-day were the same as that to which it had been reduced after the period of competition spoken of by Commissioner Prouty, the well-managed railroads would be prosperous and the impairment of credit which they are now experiencing would have no reason for existence.

As it is, there has been a marked increase in business done with a steady shrinkage in the measure by which the carrier's toll is meted out. The result is that the railroad apparently has passed the point where it is possible through an increase in the volume of its business to obtain a living from the decreasing toll and now finds itself in a predicament not of its own making.

Real Rates Greatly Declined

If there had been the same growth in traffic, with a practically stable medium of exchange, as there has been during the past fifteen years with money constantly depreciating in exchange value, the railroads would have no just cause for complaint.

Furthermore, the relation between the railroads and their patrons, their employes, and their stockholders probably would be more satisfactory than they are. While the service has been greatly improved, it has not been possible to make it what the managers would like.

While wages have risen as a result of arbitration, mediation and the general demand for higher pay in all branches of industry, stockholders have not received relatively as high a return as they did in the late 90s.

The percentages may be the same, but the purchasing power of the dividend is considerably lowered, and if one attempted to-day to realize upon the investment, he would receive not only fewer dollars, but considerably less in what they will buy.

Why It Costs More to Keep Up a Railroad's Cars and Locomotives

April 15, 1914.

At the hearing before the Interstate Commerce Commision, Mr. J. T. Wallis, general superintendent of motive power of the Pennsylvania Railroad Company, testified concerning the increased maintenance of equipment expenses incidental to the operation of the Pennsylvania Railroad System.

Mr. Wallis pointed out that the Pennsylvania System paid out $72,971,585 for maintenance of equipment in 1913 as compared with $58,197,036 in 1910—an increase of 25.39 per cent.

* * * *

The Pennsylvania Railroad east of Pittsburgh had 4242 locomotives on June 30, 1913, against 4067 on June 30, 1910. Average tractive power in 1913 was 32,776 pounds against 31,013 pounds in 1910. Total locomotive miles were 128,334,119 in 1913 and 117,010,549 in 1910.

The cost of locomotive repairs on the Pennsylvania Railroad lines east of Pittsburgh for the year ended June 30, 1910, was $11,597,406. The cost of locomotive repairs for the year ended June 30, 1913, was $15,267,832, an increase of $3,670,426, or 31.7 per cent.

It costs proportionately more money to maintain a large locomotive than a small one, and the repairs of any given size locomotive will vary with the number of miles that the locomotive is run, namely, its use.

It is accordingly proper to base comparison of the cost of locomotive repairs on tractive power miles, which are arrived at by multiplying the mileage of every locomotive in service by its tractive power.

Of the total increase of $3,670,426 in locomotive repairs, $1,129,940 is accounted for by increased rates of pay and by expenditures to meet changed conditions, and $1,843,988 as a result of increase in tractive power miles.

The cost of locomotive repairs to-day bears a proper relation to the class of locomotives that are being maintained when due consideration has been given to the general increases and various adjustments in wages that have been made since the adoption of locomotives of the type used to-day.

Repairs of freight cars cost the Pennsylvania System $24,121,049 in 1913 as compared with $18,281,364 in 1910. There were 268,364 cars the former year against 249,788 in 1910.

Of the total sum of $5,839,685 increased charges to repairs of freight cars, there is due to an increase in total freight car mileage $2,175,482. The increase in wages previously referred to in connection with locomotives caused an increase of $572,802. Expenditures rendered necessary by the standardization of equipment law accounted for a further sum of $1,190,054.

The remaining amount of $1,901,347 is due, first, to an increase in the price of yellow pine and oak used in repairs of wooden cars, and, second, to the increase in the capacity of the modern car.

Why Repairs Cost More

The character of the cars that are being constructed to-day is different from what it was ten years ago. Steel cars are coming in for heavy repairs, and the situation is gradually adjusting itself, but we will not have complete data as to the cost of repairs to such cars until a greater proportion of the steel cars have been passed through the shop for heavy repairs, and probably not until some of them, at least, have been discarded on account of decay, at which time an average figure for the repair of steel cars can be arrived at, but this is not possible to-day.

The cost of repairs to freight cars per million capacity ton miles has decreased each year as compared with the year 1903, this decrease for 1909 being 22.6 per cent. Since that time the decrease has not been so great, due to the fact that there was an increase in wages and added expenditure in connection with the standardization of equipment law. In the year 1913 there was a decrease of 17.4 per cent. in the cost of repairs per million capacity ton miles under the cost of 1903. If the charges for the standardization of equipment law and the increase in wages were eliminated, the cost per million carrying capacity miles would have been .00069 as compared with .00093 in 1903, or a decrease of 26 per cent. In other words, it is quite plain that the cost of car repairs per unit of capacity available for loading is decreasing, if other varying factors, such as increases in wages and charges for standardization of equipment, are eliminated.

The cost of repairs to passenger equipment cars for the year ended June 30,

1910, was $2,681,753, and for the year ended June 30, 1913, $3,176,707, an increase of $494,954, or 18.4 per cent.

Of this, 6.6 per cent., or $176,006, is due to an increase in car mileage. An increase in wages heretofore referred to accounts for an additional amount of $75,781, or 2.8 per cent.

In 1908 we received our first steel passenger equipment cars. At January 1, 1914, we had a total of 1742 steel passenger cars in steam service, 84 steel cars in electric service, and 2209 wooden cars. The wooden cars have been rapidly going out of service and the steel cars have been replacing them. The rate of replacement has been very rapid, in fact, much faster than the replacement of wooden cars prior to the adoption of the steel car. During the first few years that the steel cars came to us, they required comparatively little attention, and in our effort to utilize our steel passenger equipment cars to the very best advantage and to make steel cars cover a maximum number of trains so that the public might have the maximum benefit therefrom, we kept our steel passenger equipment cars out of the shop and did but comparatively little work on them until within the last two years, when it became necessary to take them in and do more work to prevent deterioration.

Renewals and Depreciation of Equipment

At the present time the Pennsylvania Railroad Company charges depreciation on the following bases: Locomotives and passenger cars on a basis of 4 per cent. of the original cost of the equipment, and on freight cars on a basis of 3 per cent. on

such cost, for the reason that we believe a locomotive will last about twenty years, and based on the final value of the scrap being 20 per cent. of the original value, the depreciation plus the salvage will equal the original cost. On passenger cars we believe that our wooden cars will last twenty years. As far as steel cars are concerned, we do not know how long they will last, but in order to provide for the replacing of our wooden with steel cars in a reasonable time, and for the steel cars when they shall have to be retired, the best figure we have been able to arrive at is 4 per cent.

Why It Costs More to Maintain a Railroad

APRIL 16, 1914.

Testifying in the 5 per cent. rate case before the Interstate Commerce Commission, Mr. J. G. Rodgers, General Superintendent of the Northern Division of the Pennsylvania Railroad, set forth the reasons for the increase in cost of maintenance of way and structures on the Pennsylvania Railroad in recent years.

* * * *

Charges to operating expenses on the Pennsylvania System east of Pittsburgh were $24,855,624 in 1910 and $29,411,210 in 1913—an increase of 18.3 per cent. Mr. Rodgers stated in substance:

The maintenance of way expenses for 1913 are necessarily much larger than they have been in the past and will undoubtedly continue to be at least on the present level in the future, due to the following causes:

1. The large increase in wages which has already been made.

2. That in view of the policy of commissions and the demands of the public, a much higher standard of maintenance must be observed than in the past.

3. That in past years the standard, quality, durability and strength of the roadbed and track structure has not kept pace with the increase in the weight of locomotives and steel cars, but the improvements that have been made looking toward this end have made the track a much larger and more expensive structure than it was

some years ago and, therefore, it costs more to renew the different parts thereof.

4. That the policy of eliminating grade crossings, installing interlocking and automatic signals, straightening line, etc., in which respect there is still a great deal to be done, and which will continue as far into the future as we can foresee, involves heavy charges for replacement in kind of plant retired, and the structures which are built to eliminate grade crossings, consisting as they do of embankments, tunnels and bridges, will require much more to be spent upon them in the way of maintenance than the ordinary running track that heretofore existed.

* * * *

Thus, of the total increase in maintenance of way and structures expenditures, 1913 over 1910, of $4,555,586 there are accounted for:

1. Mileage maintained	$1,089,059
2. Rate of wages paid	633,760
3. Number of men employed.	283,721
4. Prices of materials used ..	607,603
5. Miscellaneous repair items.	7,624
6. Amounts charged to expenses as replacements in kind in connection with elimination of grade crossings, installation of interlocking and automatic signals, changes of grade and line, etc.	2,162,964
Total	$4,784,731

* * * *

Increasing Costs

Mr. Rodgers gave certain concrete illustrations of increased costs, as follows:

The average distributing point price of rail has advanced from $28.87 in 1910 to $30.88 in 1913, an increase of $2.01 per ton, or 7 per cent., due to a greater proportion of open-hearth than Bessemer steel used to secure increased safety during the latter year.

The average price of all ties used for repairs increased from 76.6c. to 84.5c. at the distributing point. This is due largely to the increased use of creosoted soft-wood ties made necessary by the scarcity of hard-wood ties. Creosoted ties have been used since 1909 only; in 1910, 17,598, and in 1913, 1,102,886 creosoted ties were put in.

The depth of ballast in 1909 was from 8 to 12 inches, and the standard has now been established as 18 inches. While the first cost of the increased depth is chargeable to additions and betterments, operating expenses are increased by the renewal of cinder, gravel and slag ballast placed under track a few years ago and will increase as the additional stone ballast wears out.

The number of ties used per mile has been increased in order to strengthen track for use of heavier equipment; prior to 1909 the number of ties to a 33-foot rail was 16, or 2560 per mile; in 1909 this was increased to 18, or 2880 per mile, to comply with which policy additional ties per rail have been put in as rapidly as possible.

* * * *

The total number of tons of rail used for renewals in 1913 was 77,094 as compared with 95,808 tons in 1910. There were 3023 miles of 100-pound rail in main

track in 1910, or 37 per cent. of the total, and in 1913, 3534 miles, or 43 per cent. of the total. There were 3904 miles of 85-pound rail in main track in 1910, or 48 per cent. of the total, and in 1913, 3825 miles, or 46 per cent. of the total.

Eighty-five-pound section was adopted as standard in 1887, and 100-pound rail for main line passenger tracks in 1892.

As was the case in some other instances, renewals of rails in 1908 and 1909 were low, which made it necessary to use larger amounts in 1910. The consumption in the latter year, therefore, was considerably higher than the average, while that for 1913 was about normal, based upon the average for the past five years.

In the endeavor to promote the safety of the traveling public in every possible direction, special attention was given to the rock cuts between Philadelphia and Pittsburgh and overhanging rocks were removed, at a cost of $72,852.

Renewing linings of tunnels on the Western Pennsylvania Division and maintaining an improved ventilation system at Baltimore entailed an increased expenditure of $29,032.

* * * *

"Safety" Costs More

"Safety work"—signs and signals at crossings, heavier repairs to road crossings and fences—together with the construction of a large amount of improved fence in New Jersey, represented an increase of $36,206.

The signal system has been greatly extended during this period, all passenger tracks having been put under absolute

block system in 1912, in addition to which there has been a large extension of the automatic signals in place of manual block signals, and revisions of interlocking in connection therewith.

In 1910 there were 395 miles of automatic signals and 3209 miles of manual block signals; in 1913 there were 690 miles of automatic signals and 3926 miles of manual block signals. These changes must continue, resulting in increased charges to expenses for replacements in kind as shown above, as well as in the increased cost of maintenance.

The Position of the Pennsylvania Railroad

APRIL 18, 1914.

In presenting the case of the Pennsylvania System in applying to the Interstate Commerce Commission for a 5 per cent. increase in freight rates, Mr. Samuel Rea, president of the Pennsylvania Railroad Company, testified in substance as follows:

"The position of the Pennsylvania Railroad System is not so strong as it was.

Changes in Fifteen Years

"1. In 1898 the company was emerging from a period of prolonged and very severe depression, whereas in 1913 it was at the end of a great period of growth. It would be natural under ordinary circumstances that the owners of the property should find themselves very much better off in 1913 than they were in 1898.

"2. In the fifteen years between 1898 and 1913 the company had the benefit of the following:

"(a) An advance in certain commodity rates.

"(b) The abolition of rebates.

"(c) The expenditure of hundreds of millions of capital for improvement and enlargement of facilities and equipment.

"(d) A consequent great improvement in efficiency and use of plant.

"3. In the fifteen years, 1898 to 1913, property investment increased from about $792,000,000 to almost $1,387,000,000, or 75 per cent.; operating revenues increased from a little less than $145,000,000 to over $382,000,000, or 163 per cent.; oper-

ating revenue per mile of track operated increased from $8,178 to $15,261, or 87 per cent.; the company thus had during these fifteen years all the benefits arising from a remarkable growth of business both in volume and density, which ordinarily under the law of increasing return should have materially improved the position of its owners.

"4. But as a matter of fact the return on property investment in 1913 was only 5.48 per cent. as against 5.45 per cent in 1898, and furthermore, was the smallest return in any of the fifteen years of the period; the percentage of net corporate income (plus interest on funded debt) on total capital obligations in 1913 was but 6.88 per cent. against 6.65 per cent. in 1898, and with the single exception of the year 1899, when this figure was 6.70 per cent., it is the lowest of any year in the fifteen-year period; the net corporate income per cent. on capital stock outstanding held by the public in 1913 was only 9.64 per cent. against 8.53 per cent. in 1898, and here also the 1913 figure is the lowest for any year in the fifteen-year period with the single exception of 1899, when the figure was 8.94 per cent.

"5. The conclusion to be drawn from these facts is that the increase of expenses and other outlays beyond the company's power to control have finally overcome the advantages thus far realized of advanced rates, abolition of rebates, increased volume and density of business, large expenditure of capital and improvement in plant and methods. The company is now confronted by a rapidly decreasing rate of return on property investment and capital

obligations and is unable to offset these tendencies by any methods which it can at present apply or which seem to be practically possible other than an advance in rates.

* * * *

"We have in more prosperous times given to the public a good share in our prosperity. We desire to continue to live up to a high standard of public service, but whether we can do so or not depends on the decision of this commission.

"Unless the gap between receipts and expenditures can be widened, we must begin to retrench, and retrenchment must begin on betterments and improvements not directly necessary to the movement of trains. We should be very reluctant to do this, as it would be to run counter to our traditions and practice of half a century, and we are sure that it would not be in the public interest, and we do not believe the public desire it.

"I would not create the impresssion that a 5 per cent. rate advance is necessary to the maintenance of the Pennsylvania Railroad Company's dividends in the immediate future, although, if it cannot be obtained, it may be necessary for the company to curtail the necessary provision to preserve that high standard which the public has grown to expect from it.

"Any general idea that the Pennsylvania Railroad Company's position is so strong as not to need any additional revenue is not correct, because only 4.84 per cent. was earned on the money invested in the railroad and equipment of the Pennsylvania Railroad Company and the lines

east of Pittsburgh directly operated by it during the year ended June 30, 1913.

"This company has paid a return on the stock in every year since its incorporation, but in the past thirty-six years the cash dividends have never exceeded 6 per cent. per annum, except in 1881, when 8 per cent. was paid, and in 1882 and 1906, when 6½ per cent. was paid, and in 1907 when 7 per cent. was paid. Cash dividends since 1847 have averaged 6.01 per cent. on par ($50 per share).

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Eighty-nine Thousand Stockholders

"Our company is owned by over 89,000 stockholders, and the average holding is about 113 shares. Fully 48 per cent. of this number is made up of women, and two-thirds of the stockholders do not hold over $2500 each of stock.

"Since 1907 our large body of stockholders have, like everybody else, had to face the higher cost of living, that is with the decreased purchasing power of the dividend. We have not been able to relieve them by any change in the rate of dividend, although it is recognized that some of them subscribed for the stock at 20 per cent. above par and their return is but 5 per cent. per annum. The bondholders who converted their holdings into stock at 140 per cent. obtain a return of only 4.29 per cent., while those who converted their bonds at the fixed rate of 150 per cent. receive only 4 per cent. per annum on their investment.

"The stockholders have pursued a very liberal policy in using the surplus of past years for betterments and to maintain a high and safe standard of railroad service.

Future Policy

"But what is to be our policy in the future? The striking shrinkage of net operating income in recent years compels us to review and reconsider it; we cannot stand still; we must advance with a growing country for which there is yet much to be done, or go backward.

"It is unwise, as well as unnecessary to commit ourselves to any large fixed program of expenditures, except to say that without assurance of adequate earnings they cannot proceed, and a reasonable portion of the cost of these future enlargements and improvements ought in our judgment to be provided from surplus earnings.

"The Pennsylvania Railroad ought to continue its traditional policy of paying stable and reasonable dividends and putting back into the property a reasonable portion of its surplus for additional facilities and improvements for the public, but if we are to be prevented from securing reasonable rates, I am forced to deal with the question whether that policy is still sound. The question must be faced from two points of view—that of the stockholders and that of the public, including in the latter all dependent on the railroads for support as well as service.

"From the stockholders' point of view, I desire now to say that our present dividend, unless it is absolutely secure in good and bad years, is not a fully reasonable return to our shareholders. The fact that we have not paid to our shareholders many millions of dollars earned as a profit, at very low rates, which profit might without objection, either legal or moral, have been

paid out as dividends, but instead have devoted this money very largely to the improvement of the public service, entitles us to make this claim.

"If we are allowed to earn a net income that will make our dividends safe beyond reasonable risk the company will, I doubt not, continue its established policy of devoting a large portion of its surplus to improvements and the maintenance of a safe and high standard of transportation service.

"But if the security of our dividend is to be imperiled, we must do what we can to protect ourselves, and we shall be forced to seriously consider the propriety of insuring against a reduction of dividends in bad years by devoting in good years our additional earnings not to the improvement of property devoted irrevocably to public service, but to a reserve dividend fund for our shareholders.

"Experience indicates that the practice of putting back into the property the surplus beyond a reasonable dividend is in the interest not only of the shareholders, who thereby tend to insure the permanence of their dividend, but also of the public, who thereby insure the continuance of the provision of adequate facilities, even where they are not directly dividend earning. Is not the policy of betterments from income at least more in the public interest than dividing the entire net profits?

"In all of this it should be recalled that while improvements and betterments made out of surplus income become the property of the shareholders, they are property dedicated to a public use, and as

such subject to public regulation, and only by the pursuit of this policy for over fifty years has the Pennsylvania Railroad Company been able to maintain its dividends, and its surplus is not excessive.

* * * *

"The position of the Pennsylvania System is clearly revealed in the following brief digest:

"In ten years (June 30, 1903, to June 30, 1913):

Property investment in railroad and equipment has increased	530 millions
Operating revenues increased	149 millions
Operating expenses increased	129 millions
Net operating income (after paying taxes, rents, and equipment hire) increased	12 millions

or a return of only 2.23 per cent. on the increased investment.

"In the last three years (1911-1912-1913):

Property investment in railroad and equipment has increased	207 millions
Operating revenues increased	47 millions
Operating expenses increased	54 millions
Net operating income (after paying taxes, rents, and equipment hire) *decreased*	11 millions

* * * *

Conclusion to be Drawn

"What is the conclusion to be drawn from all of this?

"1. The margin of surplus is steadily diminishing, and the company is not receiving any return either on the additional capital invested, or for the value of the service rendered and the facilities provided for public use.

"2. Had there been no surplus in earlier years, and had the whole of the improvements been paid for out of capital, the margin would now have reached the vanishing point.

"3. If surplus steadily decreases, improvements, if made at all, will more and more need to be made out of new capital.

"4. But if the margin of safety decreases, new capital will only be raised with greater difficulty and on more onerous terms.

"5. Indeed, it is questionable whether, if new capital is to continue to earn no income, the directors will be justified in attempting to raise more than a modicum of what they believe necessary, as the effect must be to reduce the percentage return on the shareholders' capital already invested."

Railroad Returns for First Eight Months of Current Fiscal Year

April 26, 1914.

The thirty-five railroad systems in Official Classification territory which are applying for a 5 per cent. increase in freight rates have compiled and just filed with the Interstate Commerce Commission data setting forth results of their operations for the first eight months of the present fiscal year.

During the period from July 1, 1913, to February 28, 1914, the revenues of these companies decreased from $931,508,361 to $910,346,537 as compared with the previous year.

For the same period expenses increased from $645,404,193 to $683,364,514.

There was thus a decrease in revenues of $21,161,824, and an increase in expenses amounting to $37,960,321—or a loss in net operating income of $59,122,145.

When to the foregoing fact is added an increase in taxes of $2,507,471 and a decrease in net revenue from outside operations, there is shown a loss in operating income of $69,355,881, or 26 per cent.

Assuming that no additional money has been invested in these properties since July 1st of last year, the returns for the current eight months show 4.47 per cent. earned on property investment, as against 5.53 per cent. in the corresponding eight months of last year.

The Pennsylvania System in the same period shows 4.92 per cent., as against 5.56 per cent. in 1913.

The New York Central Lines show 3.56 per cent., as against 5.63 per cent. in 1913.

The Baltimore and Ohio System shows 4.10 per cent., as against 4.63 per cent. in 1913.

The Erie System shows 2.75 per cent., as against 3.91 per cent. in 1913.

The Pennsylvania Railroad System, Baltimore and Ohio System and New York Central Lines show 4.23 per cent., as against 5.44 per cent in 1913.

The rate of return on property investment that is shown by all these railroads for this portion of the present year is the smallest of any year in the last fifteen years.

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